The Fire Insurance Society of San Francisco

(INCORPORATED)

418 MONTGOMERY STREET

ANNUAL REPORT OF PROCEEDINGS

1910-1911

VOLUME I

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FOREWORD

THE Fire Insurance Society of San Francisco is an Incorporated body organized October 11, 1910, for educational and social purposes. Prior to that date, the need of closer relationship in the Fire Insurance fraternity and of better technical training and uniformity of practices had been so strongly felt that the amalgamation of the mass of Office Men into an organized, purposeful and useful body had become a necessity. Designed primarily for the mutual benefit of men behind counters and growing up with the business, it was planned to limit active membership to men of this class, while Managers, General and Special Agents were to be granted the privilege of Associate membership.

The proposition was received with enthusiasm and at the close of the Charter a membership far in excess of that anticipated had been enrolled. Active work was at once commenced under the direction of the following Officers and Directors:

President, Henry S. Dunn — Vice-President, G. A. Yocum
Secretary, William S. Wells — Treasurer, George F. Alberti
Librarian, E. M. Brodenstein
Directors, E. N. Sewell, J. C. Beedy, G. J. Crawford, Munroe English, B. M. Wood and F. J. Mayer.

Suitable quarters were presently secured and furnished, and these remain the home of the Society today. The educational and social activities of the organization during its first year are detailed in the Annual Report, which follows. Long before the expiration of that term the Society had demonstrated its usefulness, and its permanency is assured.

This Society acknowledges a debt of gratitude to the gentlemen who so generously contributed their wisdom, energy and time in the preparation of the several papers delivered before its members. It is deeply to be regretted that the manuscripts of several articles are not now available, but the full text of those remaining is presented herewith. The Society deems it a privilege to perpetuate these valuable contributions to Insurance Literature and earnestly recommends that, after careful study, this booklet be preserved on the desk of every member for constant reference and guidance.

G. A. YOCUM,
President.
P. S. W. RAMSDEN,
Secretary.

San Francisco, Cal.
29th February, 1912.


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ANNUAL REPORT

(For the year ending 10 October, 1911)

Complying with Article XII, Section 1, of the By-Laws of this Society, your Board of Directors begs leave to report as follows:

In February, 1910, a banquet was held, the participants being mainly Office Men in the Fire Insurance Business in San Francisco. The affair was highly successful and it at once became evident that a permanent organization of the material and talent there represented would be most desirable and beneficial. Looking to that end, a Volunteer Committee formulated plans and prepared a Constitution and a set of By-Laws, which, when this Society was finally formed, have been the invariable guide of this Board.

Our prime object in the administration of the Society's affairs has been the educational feature—an attempt to place before each member the experience and wisdom of the best qualified experts in the various lines on which we have been addressed. The eleven lectures, each prepared especially for our benefit, and each a model of its kind, had in them material of incalculable value, and we feel that the members of this Society have been much benefited by this branch of our educational work.

Following the recommendations of the Advisory Committee, further, we have successfully inaugurated a series of inspections of special hazards which have been well attended, and seem to have met with the approval of the members as a whole. Our name and organization have opened to us doors that show "No Admittance" signs to strangers and laymen, and the opportunities thus given us to study hazards of various types at first hand and to develop individual investigations have proven of undoubted value. We have endeavored to vary the classes of hazards inspected as much as possible to uphold and increase the interest of the naturally investigative minds of our average membership, and the attendance and approval manifested seem to have commended the wisdom of this course.

An out-of-town inspection trip was also attempted with the most gratifying results. Our representatives were entertained in Fresno with the utmost courtesy and generosity. This trip—probably the first of its kind ever held by such a society in America—has been noted and commented upon by all the prominent journals dealing with insurance matters over the entire country. It has brought us into prominence and has proven more than any other one thing that we are serious men, who take ourselves seriously, and expect the rest of the Insurance world to do so as well. The man who wishes to learn, to advance in his business, to forge ahead, is the member whom we, as a Society, are best able to assist.

We have aimed also to interest the less ambitious brother by enticing him to see or hear something which may seem remotely related to the Insurance business, but which in reality is vitally connected with our many-sided occupation. We are striving to develop our means of

a livelihood into a dignified and well-formulated science, and ourselves from plodding clerks into independent and competent underwriters.

Along the lines of competition, your Board of Directors has been able to place before you a most interesting and highly successful contest—that for the Kinne Cup. This contest, based upon the most liberal lines and planned in the most liberal spirit, brought out several notable contributions to Insurance literature, and has placed in the hands of our members the result of the careful study of the competitors. The Society is indebted to its good friend, Colonel C. Mason Kinne, not only for the Cup itself, but for the invaluable services of the judges.

Hard work and close study must have their periods of relaxation. Interest cannot be maintained upon the serious side of life forever. Our Constitution calls upon us "to further the social intercourse" among our members, and your Board of Directors has endeavored to advance this feature of its work quite as energetically as the educational. At first, entertainments were attempted following the lectures, but this proved inadvisable, and special evenings were allotted to the social work, we trust with good success. Smokers with informal vaudeville have seemed to meet with general approval, but the Whist Tournament, for which handsome prizes were awarded, was the most enthusiastically received and attended.

As a result of the maintenance of these quarters, where members, regardless of their positions in offices, meet upon a common ground, the young insurance men of San Francisco have become amalgamated into a degree of fellowship and brotherhood highly to be desired. A new and lofty feeling has been engendered, upon which your Board congratulates the Society.

It has been our duty to report from time to time upon the finances of the Society, so all members are familiar with the disbursements authorized by this Board. All bills have been audited by the Board as a whole, and it has been our constant aim to avoid every unnecessary expense. The report of the Treasurer will include the exact financial standing of the Society at this date.

The report of the Secretary will give figures and details as to meetings, lectures, inspections, etc., and these will not be reported upon here. We will remark, however, that during the year of our service, with all the extra work of a new organization, but twice has this Board failed to secure a quorum at meetings and never once has the vote upon any subject been split. Good fellowship and a desire to pull together for your Society's best interests have always been keenly in evidence.

Upon concluding the services for which we were elected a year ago, we wish to thank the members of this Society for their co-operation in our work, the gentlemen who so generously contributed their lectures for our benefit, the Regents of the University of California for courtesies extended, and the committeemen, upon whom a heavy share of the labor has fallen. We turn the Society over to you somewhat reduced in membership, but nevertheless stronger than when we received the responsibility of conducting its affairs; this as a result of your own amalgamation and co-operation.

In conclusion, we wish to recommend that, in a general way, the operations of this Society be continued along the same lines; we recommend the resumption of the lecture season as soon as practicable; a

continuation of the local inspections; the establishment, as an annual event, of a contest for a cup, to be known as the Kinne Cup; the establishment, as an annual event, of an out-of-town inspection; the printing of the lectures, the winning papers of the Kinne Cup contest and this report in convenient form for distribution to all members for review and further study; the popularizing and improving of our quarters; the development of our own talent along entertainment lines; the fostering of fellowship and good feeling; and, above all, the maintenance of our beloved Society in good repute, strength and unity.

Respectfully submitted,

(Signed) BOARD OF DIRECTORS,

THE FIRE INSURANCE SOCIETY OF SAN FRANCISCO,

by HENRY S. DUNN, *President.*

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THE KINNE RULE

For the Apportionment of Non-Concurrent Policies

First Adopted February 18th, 1885,
By the Fire Underwriters' Association of the Pacific.
Re-affirmed May 20th, 1910, under Written Agreement between Companies operating on Pacific Coast.

THE PRINCIPLE.

The principle governing all apportionments of non-concurrent policies is, that general and specific insurances must be regarded as co-insurances; and general insurance must float over and contribute to loss on all subjects under its protection, in the proportions of the respective losses thereon, until the insured is indemnified, or the policy exhausted.

STEPS TO BE TAKEN.

The correct method of applying the principle has been formulated in the following:

First—Ascertain the non-concurrence of the various policies and classify the various items covered into as many groups as the non-concurrence demands, whether of property, location or ownership.

Second—Ascertain loss on such groups of items separately.

Third—If but a single group is found with a loss upon it, the amount of all policies covering the group contribute pro rata.

Fourth—If more than one group has sustained a loss, and such loss on one or more groups be equal to or greater than the totals of general and specific insurance thereon, then let the whole amount of such insurances apply to the payment of loss on such groups.

APPORTIONMENT.

Fifth—If more than one group has sustained a loss, and such loss be less than the totals of unexhausted general and specific insurances thereon, then apportion the amount of each policy covering on such groups generally, to cover specifically on such groups, in the same proportion that the sum of the losses on such groups bears to the loss on each individual group.

Note.—When a group is covered by one or more general policies it would be well to see at once if an apportionment as above on that group would equal the loss, as in case it will not, it will show, without further calculation, that the whole amount of loss on such group must be met by such policies pro rata, and the remainder only apportioned. In such cases, carrying out Step 6 simply accomplishes by a longer process what here is indicated.

RE-APPORTIONMENT.

Sixth—If the loss on any group or groups is then found to be greater than the sum of the now specific insurances as apportioned, add sufficient to such specific insurances to make up the loss on the group, taking the amount of the deficiency from the now specific insurance of the heretofore general amounts previously covering the now deficient group, which cover on groups having an excess of insurance, in the proportion that their sums bear to their individual amounts.

Note.—Very rarely are new deficiencies created by the re-apportionment, but if so, simply repeat Step 6.

Seventh—Cause the amounts of all the now specific insurances to severally contribute pro rata to pay the partial losses, and it will be found that the whole scheme has resulted in the claimant being fully indemnified in accordance with the various contracts and on a basis which preserves the equities between the companies throughout

To simplify matters, the following formula is given in order that time may be saved, when no analysis of the principle is desired or argument needed.

APPORTIONMENT.

General Policies covering on more than one group should be divided into specific sums as follows:

Formula. (See Step 5.)

1—As —the sum of the losses on such groups.
2—Is to :—the individual loss on each of them.
3—So is::—the whole amount of policy so covering.
4—To :—the specific amount to apply on each group.

Method of Computation.

Divide No. 3 by No. 1 to get per cent, and then multiply by No. 2 (seriatim) to get No. 4.

RE-APPORTIONMENT.

Should there not now be enough insurance on a group or groups to pay the loss, and some groups have more than enough, a second re-apportionment is necessary, though ordinarily but one is needed.

Formula. (See Step 6.)

1—As —the sum of specific insurance (having surplus).
2—Is to :—the individual amount on each of them.
3—So is::—the sum to be provided.
4—To :—the amount each group shall contribute.

Method of Computation.

Divide No. 3 by No. 1 to get per cent, and then multiply by No. 2 (seriatim) to get No. 4.

Repeat Step 6 when necessary.

The deficient groups can now be fortified by the exact amounts needed to pay the losses, and the problem is at once narrowed down to an ordinary mathematical one.

Contribution.

All groups have now specific insurances on them, and will pay the losses pro rata, whereby absolute indemnity to the insured, and equitable contributions by the companies are attained on the proper and unchanging principle of Loss to Loss.

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APPORTIONMENTS UNDER NON-CONCURRENT POLICIES AND EXEMPLIFICATION OF THE "KINNE RULE"

Problems Solved and Explained by A. W. THORNTON
Joint Manager of the London Assurance Corporation and the Niagara Fire Insurance Co.

(Note: Unless otherwise shown, all policies in each case are presumed to have been written in the name of the same insured.)

PROBLEMS.

1. Company A insures $1,000 on teas and coffees; Company B $400 on teas only. Loss $300 on teas, $200 on coffees.
   (Showing a simple form of non-concurreney.)
2. Company A insures $1,000 on teas and coffees; Company B $400 on teas. Loss $300 on teas.
   (Showing operation of Kinne rule when one item only sustains loss.)
3. Company A insures $1,000 on teas and coffees; Company B $400 on teas. Loss $500 on teas, $750 on coffees.
   (To explain "Note on Step 5" of Kinne rule.)
4. Company A insures $1,500 on building and machinery; Company B $6,000 on building, machinery and stock; Company C $5,000 on machinery and stock; Company D $2,000 on building and stock; Company E $500 on building, $500 on machinery and $500 on stock. Loss $1,000 building, $2,000 machinery and $3,000 stock.
   (Apparently complicated but really simple form of non-concurrency.)
5. Company A insures $5,000 on grain; Company B $2,500 on wheat; Company C $2,000 on oats. Loss $3,000 wheat, $1,500 oats, $1,100 on barley.
   (In the solution of this problem will be shown the difference in results between the operation of the Kinne rule and that of some old methods.)
6. Company A insures $5,000 on buildings known as Nos. 1, 3 and 5; Company B $1,000 on building No. 1, $1,000 on building No. 2 and $3,000 on building No. 3. Loss $1,000 building No. 1, $3,000 on building No. 3 and $1,000 on building No. 5.
   (Showing controversy between S. F. Managers on case now in Courts of California and explaining contentions of both sides.)
7. Company A covers $5,000 on general merchandise; Company B covers $6,000 on general merchandise; Company C covers $2,500 on boots and shoes, $3,000 on teas and coffees, and $2,000 on hardware. Loss $3,000 on boots and shoes, $4,000 on teas and coffees, and $8,000 on hardware.
   (Explaining Steps 6 and 7 of the Kinne rule.)
8. Company A insures $5,000 on building in the name of X and Y; Company B insures Y's undivided interest in same building for $5,000. Loss $3,000.
   (Non-concurrency as to ownership and demonstrating that the relative interests of X and Y must be known to properly solve the problem.)

9. Company A insures $10,000 in warehouses Nos. 1 and 2, with average clause; Company B insures $10,000 in warehouses Nos. 1 and 2, without average clause; Company C insures $5,000 in warehouse No. 1 and $5,000 in warehouse No. 2 specifically. Values $20,000 in warehouse No. 1 and $30,000 in warehouse No. 2. Loss $3,000 in No. 1 and $2,000 in No. 2.

10. Company A insures $10,000 on stock, no co-insurance; Company B insures $10,000 with 100 per cent co-insurance clause; Company C $10,000 with 80 per cent co-insurance clause; Company D $10,000 with 70 per cent co-insurance clause. Value $100,000. Loss $32,000.

(Problems 9 and 10 will bring out the difference in effect of the average clause and the co-insurance or reduced rate average clause.)

In the division of blanket insurance to contribute with specific policies, the proper method might be on a basis of values. Should this basis be adopted, however, disagreements might arise between adjusters or between the adjuster and the assured as to values. The only figures which we must positively ascertain, and for which a method is provided in the contract, are those pertaining to loss and damage. Rules must be based on ascertained or ascertainable quantities, and for this reason Colonel Kinne, in compiling his rule for the apportionment of non-concurrent policies, provided for a division of general insurance on a basis of "Loss to Loss." Briefly this means that the average clause shall apply to the general policy with basis of "Loss to Loss" instead of "Value to Value." If it is desired to apply the "Rule of Three" to determine the amount of any general insurance applying to a specific item, you may use the form somewhat as follows: Total loss on all items is to loss on specific item as the total amount of blanket policy is to the amount of such blanket policy to apply on specific item. Solving our first problem by this method, we have the ratio of $500: $300: : $1,000: X. The $300 mentioned is the loss on teas, so that the value of X is the amount of insurance to apply on teas. We now have $600 of Company A's policy covering on teas and $400 on coffees. The solution of the problem is as follows:

1.

	Teas		Coffees		Totals	
	Loss $300		Loss $200		Loss $500	
	Insures	Pays	Insures	Pays	Insures	Pays
Company A	$600	$180	$400	$200	$1,000	$380
Company B	400	120	Nil	Nil	400	120
	$1,000	$300	$400	$200	$1,400	$500

Applying the above formula to problem No. 2 to determine the amount of insurance to cover on coffees, you will find that the value of X is nothing, and the full amount of Company A's policy contributes to the loss on teas. This explains the third step of Colonel Kinne's rule.

The apportionment now is a simple one, and is as follows:

2.

	Teas		Coffees		Totals	
	Loss $300		Loss Nil		Loss $300	
	Insures	Pays	Insures	Pays	Insures	Pays
A	$1,000	$214.28	Nil	Nil	$1,000	$214.28
B	400	85.72	Nil	Nil	400	85.72
	$1,400	$300.00	Nil	Nil	$1,400	$300.00

Distributing the general policy in problem No. 3 to cover on teas and coffees in proportion to the loss thereon, we arrive at the following figures:

3.	Teas		Coffees		Totals	
	Loss $500		Loss $750		Loss $1,250	
	Insures	Pays	Insures	Pays	Insures	Pays
A	$400	$250	$600	$600	$1,000	$ 850
B	400	250	Nil	Nil	400	250
	$800	$500	$600	$600	$1,400	$1,100

You will note, however, that this gives only $600 covering on coffees, while the loss thereon amounts to $750. The assured would be able to collect only $1,100 loss on $1,400 insurance, his entire loss being $1,250. To rectify this we at once deduct the amount of loss on coffees from the general insurance, leaving a balance of $250 to apply on teas and contribute to Company B, giving us the following solution:

	Teas		Coffees		Totals	
	Loss $500		Loss $750			
	Insures	Pays	Insures	Pays	Insures	Pays
A	$250	$192.30	$750	$750	$1,000	$ 942.30
B	400	307.70	Nil	Nil	400	307.70
	$650	$500.00	$750	$750	$1,400	$1,250.00

Problem No. 4 looks difficult, but we find only three items sustaining a loss. Dividing the blanket policies in the ratio of "Loss to Loss" on different items covered thereby, we reach the following result:

	Building		Machinery		Stock		Totals	
	Loss $1,000		Loss $2,000		Loss $3,000		Loss $6,000	
	Insures	Pays	Insures	Pays	Insures	Pays	Insures	Pays
A	$ 500	$ 200	$1,000	$ 363.63			$ 1,500	$ 563.63
B	1,000	400	2,000	727.28	$3,000	$1,125.00	6,000	2,252.28
C			2,000	727.28	3,000	1,125.00	5,000	1,852.28
D	500	200			1,500	562.50	2,000	762.50
E	500	200	500	181.81	500	187.50	1,500	569.31
	$2,500	$1,000	$5,500	$2,000.00	$8,000	$3,000.00	$16,000	$6,000.00

In problem No. 5 the old method was to make the general policy contribute with the insurance on one of the specific items and the residue of such general policy float over and contribute with the second specific item, this process being continued until all items were taken up. Adopting this method, we find that if Company B's adjuster arrived on the ground first, he would naturally have Company A's full policy to contribute with him to pay the loss on wheat, the residue floating over to cover loss on oats, and what was left after this process pays the loss on barley. The following figures show the result of Company B's adjuster taking this method:

	Wheat		Oats		Barley		Totals	
	Loss $3,000		Loss $1,500		Loss $1,100		Loss $5,600	
	Insures	Pays	Insures	Pays	Insures	Pays	Insures	Pays
A	$5,000	$2,000	$3,000	$ 900	$2,100	$1,100	$10,100 (5,000)	$4,000
B	2,500	1,000					2,500	1,000
C			2,000	600			2,000	600
	$7,500	$3,000	$5,000	$1,500	$2,100	$1,100	$ 9,500= (14,600)	$5,600

Should, however, the adjuster for Company C arrive on the ground first, he would pursue the same tactics as that adopted by adjuster for Company B, with this result:

	Oats		Wheat		Barley		Totals	
	Loss $1,500		Loss $3,000		Loss $1,100		Loss $5,600	
	Insures	Pays	Insures	Pays	Insures	Pays	Insures	Pays
A	$5,000	$1,071.43	$3,928.57	$1,833.23	$2,095.34	$1,100	$5,000 (11,023.41)	$4,004.69
C	2,000	428.57					2,000	428.57
B			2,500.00	1,166.77			2,500	1,166.77
	$7,000	$1,500.00	$6,428.57	$3,000.00	$2,095.34	$1,100	$9,500 (15,523.91)	$5,600.00

You will note that in the first instance Company A really contributes on a basis of $10,100 and in the second instance on a basis of $11,023, whereas Company A's policy is for only $5,000. The Kinne rule obviates this difficulty and produces the following equable results:

	Wheat		Oats		Barley		Totals	
	Loss $3,000		Loss $1,500		Loss $1,100		Loss $5,600	
	Insures	Pays	Insures	Pays	Insures	Pays	Insures	Pays
A	$2,600	$1,529.40	$1,300	$ 590.90	$1,100	$1,100	$5,000	$3,220.30
B	2,500	1,470.60	Nil		Nil	Nil	2,500	1,470.60
C	Nil	Nil	2,000	909.10	Nil	Nil	2,000	909.10
	$5,100	$3,000.00	$3,300	$1,500.00	$1,100	$1,100	$9,500	$5,600.00

The following is a solution of problem No. 6 under the Kinne rule:

6.	Bldg. No. 1		Bldg. No. 5		Bldg. No. 3		Totals	
	Loss $1,000		Loss $1,000		Loss $3,000		Loss $5,000	
	Insures	Pays	Insures	Pays	Insures	Pays	Insures	Pays
A	$1,000	$ 500	$1,000	$ 500	$3,000	$1,500	$ 5,000	$2,500
B	1,000	500	1,000	500	3,000	1,500	5,000	2,500
	$2,000	$1,000	$2,000	$1,000	$6,000	$3,000	$10,000	$5,000

If, however, it is claimed that the general policy should contribute with the specific policy in the building where the fire started and the residue of the general policy contributes consecutively on buildings Nos. 3 and 5, the result is:

	Bldg. No. 1		Bldg. No. 5		Bldg. No. 3		Totals	
	Loss $1,000		Loss $1,000		Loss $3,000		Loss $5,000	
	Insures	Pays	Insures	Pays	Insures	Pays	Insures	Pays
A	$5,000	$ 833.34	$4,166.66	$ 806.45	$3,360.21	$1,584.90	$ 5,000 (12,526)	$3,224.69
B	1,000	166.66	1,000.00	193.55	3,000.00	1,415.10	5,000	1,775.31
	$6,000	$1,000.00	$5,166.66	$1,000.00	$6,360.21	$3,000.00	$10,000 (17,526)	$5,000.00

This shows Company A contributing on a basis of $12,500. You will notice that it would make a material difference whether the fire spread from building No. 1 to building No. 3 and then communicated with building No. 5, or to No. 5 first and then to No. 3.

If, however, the fire started in building No. 3 and then spread to Nos. 1 and 5, the solution of the problem would be:

	Bldg No. 1		Bldg. No. 5		Bldg. No. 3		Totals	
	Loss $1,000		Loss $1,000		Loss $3,000		Loss $5,000	
	Insures	Pays	Insures	Pays	Insures	Pays	Insures	Pays
A	$3,125	$ 757.58	$2,367.42	$ 703	$5,000	$1,875	$ 5,000	$3,335.58
							(10,492)	
B	1,000	242.42	1,000.00	297	3,000	1,125	5,000	1,664.42
	$4,125	$1,000.00	$3,367.42	$1,000	$8,000	$3,000	$10,000	$5,000.00
							(15,492)	

In this you will notice that Company A's policy contributes on a basis of over $10,000.

Problem No. 7 exemplifies Steps 6 and 7 of the Kinne rule. Dividing the two blanket policies A and B to cover specifically, we have the following amount of insurance to pay the several losses:

	B. & S.		T. & C.		Hardware		Total	
	Loss $3,000		Loss $4,000		Loss $8,000		Loss $15,000	
	Insures	Pays	Insures	Pays	Insures	Pays	Insures	Pays
A	$1,000		$1,333⅓		$2,666⅔		$ 5,000	
B	1,200		1,600		3,200		6,000	
C	2,500		3,000		2,000		7,500	
	$4,700		$5,333⅓		$7,866⅔		$18,500	

It will be noticed, however, while there is enough insurance to cover on boots and shoes and teas and coffees, there is a shortage of $133.33 on hardware. Enough to make up this deficit must be deducted from the first two items covered by Companies A and B and in proportion to face of policies. In other words, 5/11 of $133.33 is to be deducted from Company A's now specific insurance on the first two items and added to the third item, and 6/11 deducted in similar manner from Company B's policy. These amounts are again subdivided to be deducted from the different items in proportion to losses thereon. In other words, of the $60.60 to be taken from Company A's policy, 3/7 is to be taken from the first item and 4/7 from the second. We deduct $25.97 from Company A's policy on boots and shoes and $34.63 from the item on teas and coffees, adding the $60.60 to the insurance on hardware. Treating Company B's policy in a similar manner, we find the following solution:

8.

	B. & S.		T. & C.		Hardware	Totals	
	Loss $3,000		Loss $4,000		Loss $8,000	Loss $15,000	
	Insures	Pays	Insures	Pays		Insures	Pays
A	$ 974.03	$ 629.37	$1,298.70	$ 886.75	$2,727.27	$ 5,000	$ 4,243.36
B	1,168.83	755.24	1,558.44	1,064.42	3,272.73	6,000	5,092.36
C	2,500.00	1,615.39	3,000.00	2,048.83	2,000.00	7,500	5,664.22
	$4,642.86	$3,000.00	$5,857.14	$4,000.00	$8,000.00	$18,500	$15,000.00

This long process might have been simplified by taking $6,000 out of Companies A's and B's policies to cover on hardware in the ratio of 5 to 6 and apportion the residue to cover on first two items

in ratio of 3 to 4. Problems Nos. 8, 9 and 10 are so simple as to require no explanation, and the results are set down below:

	X. Loss $1,500		Y. Loss $1,500		Totals Loss $8,000	
	Insures	Pays	Insures	Pays	Insures	Pays
A	$2,500	$1,500	$2,500	$ 500	$5,000	$2,000
B		Nil	5,000	1,000	5,000	1,000
	$2,500	$1,500	$7,500	$1,500	$10,000	$3,000

(On basis of equal interests, i. e., half owned by X and half by Y.)

	X. Loss $2,000		Y. Loss $1,000		Totals Loss $3,000	
	Insures	Pays	Insures	Pays	Insures	Pays
A	$3,333⅓	$2,000	$1,666⅔	$ 250	$5,000	$2,250
B	Nil	Nil	5,000	750	5,000	750
	$3,333⅓	$2,000	$6,666⅔	$1,000	$10,000	$3,000

If X owns two-thirds and Y owns one-third:

No. 9	Whse. No. 1 Loss $3,000		Whse. No. 2 Loss $2,000		Totals Loss $5,000	
	Insures	Pays	Insures	Pays	Insures	Pays
A	$ 4,000	$ 800	$ 6,000	$ 800	$10,000	$1,600
B	6,000	1,200	4,000	533⅓	10,000	1,733⅓
C	5,000	1,000	5,000	663⅔	10,000	1,666⅔
	$15,000	$3,000	$15,000	$2,000	$30,000	$5,000

No. 10.

Company A without co-insurance pays ¼ of loss or	$ 8,000.00
Company B (with assured as co-insurer $60,000)	3,200.00
Company C (with assured as co-insurer 40,000)	4,000.00
Company D (with assured as co-insurer 30,000)	4,571.42
	$19,771.42

You frequently hear the statement that the average clause and co-insurance clause are identical in proportion. The following simple problem will dispel that idea:

If there be $10,000 insurance covering warehouses A and B (policy containing an average clause), and the value in each warehouse be $20,000, it is readily seen that $5,000 insurance applies in each warehouse. Suppose that the assured has a loss of $4,000 in warehouse No. 1, it is evident that he will recover the full amount of loss, or $4,000. Now let us substitute the 100 per cent co-insurance clause for the average clause. We find a value of $40,000, with insurance of only $10,000. The assured therefore is a co-insurer to the extent of $30,000 and must bear three-fourths of any loss, the insurance company paying the other one-fourth. The amount paid, therefore, on a $10,000 policy is but $1,000 under the 100 per cent co-insurance clause where the loss is $4,000.

During the discussion of the Kinne rule and the solution of the problems, several short cuts in figures were shown on the blackboard.

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Tuesday
9 November, 1910

In the Chemistry Building
University of California

COMBUSTION

By Professor W. C. MORGAN
Of the University of California

(Note.—Acting upon a well-founded belief that a better understanding of the phenomena of combustion may be reached by actual demonstration than by any other means, Professor Morgan had prepared the apparatus for about thirty experiments, and confined his remarks to the explanation of each. For manifest reasons, no record of this absorbing topic could be preserved. The experiments were most interesting and illuminating, and many proved spectacular, particularly the demonstration of spontaneous combustion. The lecture closed with a discussion of the relative fire-resisting qualities of building materials, especial consideration being given to the "debris brick.")

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THE AUXILIARY FIRE PROTECTION SYSTEM OF SAN FRANCISCO

By MARSDEN MANSON
City Engineer of the City and County of San Francisco

(Note.—The following is a condensed report of Mr. Manson's remarks, compiled from various sources. The lecturer made his remarks clear by reference to numerous maps, charts and plans.)

The plans for the proposed high pressure fire protection system for which the citizens of San Francisco have voted a bond issue of $5,200,000, prepared with the assistance of Engineers H. D. Connick and T. W. Ranson, and in which are incorporated valuable suggestions by Chief Engineer Robertson, of the Board of Fire Underwriters of the Pacific, have been completed and approved and work has been begun on all parts of the huge undertaking simultaneously.

The total area which will be protected by the proposed high-pressure fire protection system is about 5,300 acres. It comprises that part of the eastern watershed lying between the Potrero hills and the Golden Gate, and includes all the area within the fire limits, together with the greater part of the district within which shingle roofs are prohibited.

The upper zone will be completely encircled by fourteen-inch and eighteen-inch pipes, and the streets of the section west of Van Ness Avenue will be traversed at frequent intervals in both directions by lines of pipe twelve and fourteen inches in diameter. The lower zone will under ordinary circumstances secure its water supply from the distributing reservoir to be constructed on Jones Street, between Sacramento and Clay Streets. Two eighteen-inch pipes will connect this reservoir with the distributing system.

The system will consist of, first, two fresh-water storage reservoirs, each with a capacity of 5,000,000 gallons, situated on Twin Peaks at an elevation of 755 feet, which are to be supplied by pumps of 3,000,000 gallons a day capacity; a high-level distributing reservoir of 500,000 gallons capacity, at an elevation of 495 feet, in the vicinity of Seventeenth and Stanyan Streets, and a low-level distributing reservoir of 1,000,000 gallons capacity, on Jones Street, near Clay Street, at an elevation of 329 feet.

Second, two salt-water pumping stations for emergency use, each with an ultimate capacity of 16,000 gallons per minute, in which machinery sufficient to pump 10,000 gallons per minute is to be immediately installed.

Third, two fireboats, each having a capacity of 8,000 gallons a minute against a pressure of 150 pounds to the square inch, or 4,000 gallons a minute against a pressure of 300 pounds to the square inch.

Fourth, a network of distributing pipes in two levels with a total length of about 91½ miles, fitted with the necessary hydrants, fireboat connections, etc.

It is estimated that the proposed high-pressure system will require about 32,000,000 gallons of water a year, and as reliance upon

the supply available from the Spring Valley Water Company is not thought advisable, systems of bored wells will be dug. Investigations regarding the number and yield of bored wells in various sections of the city have been made, and it has been planned to install two systems, one near Seventh and Harrison Streets and one near Sixteenth and Shotwell Streets. These wells are to be bored in the streets and will be distributed over a considerable area in order to insure a sufficient supply.

The two fresh-water pumping stations will have each 21 wells sunk in connection with them, 42 wells in all. The water from the wells is to be raised to the surface and delivered into reinforced-concrete cisterns of 175,000 gallons capacity each, situated under each pumping station, by pumps which will consist of air compressors in each station, a separate air pipe from the station to each well and water pipes in the wells and leading therefrom to the cisterns under the station. The pumps for forcing water from the cisterns into the distributing mains will be of the multi-gauge type. Electric motors will be employed.

From these wells the water will be pumped and stored in two reservoirs of sufficient capacity to supply water for ordinary fires. The salt water to be provided for emergency use will be obtained on the easterly or bay side of the peninsula. This will be done because of the existence of the old geological fault and the possibility of any pipes which cross it being broken. Therefore two stations will be installed as auxiliaries to pump water from the bay. One will be located near the northerly termination of Van Ness Avenue or Polk Street and the other near Second and Townsend Streets.

Cast iron has been decided upon as the most desirable material for the pipes. In firm ground they are to be of the bell and spigot type, with a specially designed lead joint. There are to be deep double lead grooves in both spigot and hub end of each pipe, so placed that when the pipes are laid they will be opposite one another. In areas of artificially filled ground a special type of cast-iron pipe and joint will be used. This arrangement will permit of considerably more movement in the pipes than will the ordinary bell and spigot joint.

An innovation in the laying of the pipe system, which will prevent its disarrangement under the most severe strain, is contemplated by a series of gate valves so placed that the main in any one block may be cut off from the rest of the system without seriously affecting the supply to hydrants or other blocks.

This will be done by extending the mains in each street to connect with the near-by mains of the distribution system of the zone. They will be provided with gate valves which will normally be closed. Should the mains be broken as the result of a shock, it will be possible by closing only five gate valves entirely to disconnect the broken mains from the distribution system of the zone.

This arrangement will make it possible for the pipes in the areas of artificial or "made" ground to be put out of service without seriously interfering with the use of the remaining parts of the system.

To remove sediment from the mains, blow-off valves will be provided at the low points of the distributing system. They will

be arranged to discharge directly into the sewer. To prevent the accumulation of air in the pipe lines, automatic air valves will be installed at the summits of the pipe system. Lest these and other devices should fail at critical times because of lack of attention, they will be located in selected fire-engine houses, where they can be inspected and given all necessary care.

The gate valves will be designed with a view to the use of salt water, and bronze will be employed wherever corrosion is likely to interfere with their strength. All bolts will be of mild steel, the stems of Tobin bronze. The gears, gear brackets, glands, stuffing box, bonnet and operating nut of all gates will be made of cast iron having a tensile strength of not less than 18,000 pounds to the square inch.

The plan for the fire telephone system provides for 360 instruments for the exclusive use of the Fire Department. In general there will be six call boxes on each circuit, and the circuits will be so arranged that those in areas of "made" ground can go out of service without affecting any other circuits. The call boxes will be provided with connections for portable instruments to be carried by the officers of the department, and will be so located that at least one will be within convenient distance of any part of the protected districts, the distance from any hydrant to the nearest box not exceeding one block. All telephone wires will be underground.

The method of operation may be thus summarized: With the exception of the special telephone service, which will be maintained by the Bureau of Electricity, the system will be under the direction of the Chief Engineer of the Fire Department. The department will be notified of the discovery of the fire in the same manner as at present. Upon arrival at the scene of the fire, the operator accompanying the chief or battalion chief in command will connect a set of portable telephone instruments to the most convenient call box, thereby establishing communication with the central telephone station, the gateman at the distributing reservoirs, the pumping stations and the fire station.

If during the progress of a fire the officer in charge desires the pressure increased, he can telephone to the gateman at the Clay Street reservoir, who can, by operating the necessary hydraulically controlled gates, connect the mains of the lower zone directly with the mains of the upper zone. If for any reason the pressure or the quantity of water so obtained is not sufficient, the gateman at the Seventeenth Street reservoir can be notified to open the hydraulically controlled gate on the eighteen-inch main at Seventeenth and Castro Streets, which connects the distributing reservoir of the upper zone with the distributing system of the lower zone.

Should it be desirable still further to increase these pressures, the gateman at the Seventeenth Street reservoir can, by operating the proper gates, feed the mains of the lower zones directly from the Twin Peaks reservoirs. This will raise the pressures in the low-lying areas of the lower zone to about 327 pounds to the square inch.

The two steel fireboats will ordinarily be used for the protection of property in the vicinity of the water front and of Channel Street. In the event of a general conflagration, however, they may be used to deliver water from the bay into the distributing system through

connections provided on the wharves or directly into hose lines which may be laid to the scene of the fire. Should portions of the distributing system in the "made" ground along the bay shore be destroyed, they will be of great value in protecting property within those districts.

In brief, the plans for the installation and operation of the proposed distributing system have been so made that all main pipe lines will be located in solid ground, and the portions of the distributing system in areas of unstable ground have been so planned that they can be readily and promptly disconnected from the rest of the system. That no panic resulting from a possible great conflagration many interfere with the efficient operation of the system, the whole will be of the simplest design, and the performance of their duties by the firemen will be in a way almost automatic.

The cost of the proposed system has been estimated as follows:

Two storage reservoirs on top of Twin Peaks, capacity 10,000,000 gallons	$ 126,000
Distributing reservoir of upper zone near Seventeenth and Ashbury Streets, capacity 500,000 gallons	17,000
Distributing reservoir of lower zone in Jones Street, between Sacramento and Clay Streets, capacity 1,000,000 gallons	55,000
Distributing system consisting of 483,558 lineal feet of cast-iron pipe with necessary specials, gate valves, gate boxes, hydrants, air valves, relief valves, blow-off valves and fireboat connections	3,150,000
One hundred 75,000-gallon cisterns	600,000
Two fresh-water pumping stations	117,000
Two salt-water pumping stations	650,000
Two fire boats	320,000
Quarters for men on wharf	15,000
Telephone system	150,000
Real estate for distributing reservoirs and pumping stations	100,000
Engineering, preparation of plans, specifications, testing materials and inspection of construction	200,000
	$5,500,000

THE POLICY—ITS HISTORY AND GROWTH

By RUSSELL W. OSBORN

Manager of the Pennsylvania Fire Insurance Company

(Note.—This scholarly treatise, the result of years of study and research, was one of the most noteworthy lectures of the series. The policy contract was traced from its earliest form through the evolution of the years down to its present state of perfection, and the author added interest to his remarks by quoting from two quaint policies, each dating back nearly a century. Particular stress was laid upon the economic and legal reasons for many of the more important changes and the development of the modern intricate instrument was fully explained. Some weeks later this interesting paper was delivered by its author before the Insurance class at the University of California, since which time the manuscript has been mislaid. Despite his best efforts, Mr. Osborn has been unable to locate it; but should it be found, this Society has been promised the privilege of incorporating it in its next annual.)

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THE ADJUSTMENT OF FIRE LOSSES

By WILLIAM SEXTON
General Adjuster for the Fireman's Fund Insurance Company

The adjuster should meet the insured at the ruins and tell him that he is sent by the company to assist him in preparing his claim, that it may, when sent in, be passed upon and paid without delay. He should superintend cleaning up and putting the property in order, and in separating the damaged and undamaged personal property. He must inform the insured that all cost of cleaning, putting in order and moving to a clean place when necessary, as provided for in the policy, must be paid by him; but such expense is a part of and included in the loss.

Clean up, clean up; there is no investment that pays so well in an adjustment as the time and coin invested in cleaning up.

When the property is put in the best possible order, the damage can be agreed on by the insured and the adjuster, but in the event of disagreement an appraisal can be had.

The employment by the adjuster of an expert to consult with, is valuable in amicably agreeing with the claimant on the loss to damaged property.

The total amount of the loss to the property should not be discussed or referred to during the adjustment, but must be determined by the final footing of the figures agreed on in detail; lump settlements are wrong.

The insured should have his own way, under proper guidance of the adjuster to insure that such way is the right way.

When the loss to the property is fixed and agreed on, the adjuster should then and not until then question the claimant as to facts of ownership, occupancy or encumbrance, also as to any article kept on the premises or any act of his that would void or suspend the policy; and on his admission of any such act or fact, the adjuster must stop proceedings and should deny liability.

A demand made on the insured for the performance of any act by him under the policy, after he has admitted an act or fact that voids it, is a waiver of the voidance, and reinstates the policy as good as new.

If the adjuster feels that he is not on safe ground in making a denial of liability, he must stop the work of adjusting and inform the claimant that the question of the policy being void will be passed to the home office.

The fact that "people say" the claimant burned the property; that one or two people say they saw him set the fire; that the property was reported as unoccupied, or so occupied as to void or suspend the policy; that a chattel mortgage thereon is on record, or any other hearsay testimony, is not such notice to the company that the policy is void, as will justify or demand a denial of liability there and then.

The people may be mistaken, and there may be no encumbrance under the chattel mortgage.

A denial of liability and or a refusal to proceed further with the adjustment is in order only when the claimant admits to the adjuster an act or a fact that voids the policy.

Denying liability and or refusing to pay the claim, while they appear to mean the same, are at times totally different proceedings.

A refusal to pay can be made in court when the suit is brought; and vacancy, ownership, encumbrance, arson, false swearing in proof, or any other defense under the policy can then be introduced, and as the company does not lose any points by not giving the claimant notice of its intention not to pay, the adjuster should not make any denial except in cases where the claimant admits an act or a fact that voids the policy.

The company, by denying liability, gives the claimant the right to sue immediately without filing proofs or waiting the regular time.

The adjuster should not, on account of any "cock and bull story" heard in the street, insist upon the insured signing a non-waiver agreement, as such agreement is seldom of any benefit other than to put the insured on his inquiry, and to prevent him from disclosing important facts.

There are cases where a non-waiver agreement must be taken; but such cases are generally developed ahead of time by the curiosity of the adjuster in unearthing acts or facts not necessary in ascertaining the "loss to the property."

The loss to the property being fixed and determined with as little friction as possible, the amount of the loss under the policy closes the adjustment.

The adjuster must pay every dollar of loss that the policy can be construed to cover; he must not "make a salvage" by smartness, or "miss a salvage" by carelessness.

In cases where the claimant cannot be reasoned or coaxed into caring for and putting property in order, or where he will not fish or cut bait, the adjuster should not leave in disgust, but should serve notice in writing showing him what is required by the policy contract; calling particular attention to putting property in the best possible order, separating the damaged and undamaged property and making a statement, signed and sworn to, giving cash value of and amount of loss claimed on each article.

The adjuster must keep in mind that the claimant is inexperienced and ill-advised; and that while he cannot force the claimant to follow the contract, he can wait and should stay with him until he does follow it, always keeping in mind that a poor settlement is better than a winning lawsuit.

The Patriarch "Hine" says:

"A favorite plan with a suspicious claimant is the 'honest dodge.' When I found a man who had already put his case in a lawyer's hands, and who looked with suspicious eyes on all adjusters, and came at me with his fur all on end, I could sometimes disarm him by being so all-fired sweet and honest that he didn't know what to make of me.

"As likely as any it would be a plain case, and I would usually say (which was really the case): 'We want to pay every cent we

owe you, and, of course, you don't want us to pay more. It is a simple case of finding out how much the loss is. You know a thousand times more about these goods than your lawyer does; now let you and me go to work like a couple of common-sense business men, and see if we cannot get at the figures without any law or any delay. You need not commit yourself to anything until both you and your lawyer are satisfied that you are being treated fairly.'

"Sometimes it would work and sometimes it would not, but in the majority of that sort of cases it saved time, friction and money."

He also says in giving his experience in closing a peculiar loss: "I made some sort of a settlement, the details of which I have forgotten, but the general results were, I believe, satisfactory to both the company and the claimants.

"That was the point at which I always aimed. I know adjusters who could always make what they called a 'good settlement for the company,' but they usually left the claimant mad and the community critical, and I have known others who could always leave the claimant and his friends happy, but the settlement cost the company too much money.

"To strike a happy mean and meet the just expectations of both sides, is the one toward which we should always strive."

The Patriarch's methods of forty years ago may be added to, but they cannot be improved upon.

Once in a great while, proof of loss on contents of a dwelling comes in which indicates that the adjuster called the insured to the agent's office and instructed him to follow the conditions of the policy, and to make and bring to the agent's office a schedule of the personal property showing cost, age and loss claimed on each item. When such instructions are given, the dazed claimant sits down with his wife, gets out a stub pencil, wets it on his tongue and in twenty-four hours or so manages to grind out, or gets the squire or the furniture man to grind out for him, a statement that will bear a 50 per cent depreciation and then show more than a total loss.

Having figured the amount of the loss on the furniture and other personal effects in the dwelling, or that would have been in the dwelling if he could have afforded them, to his own satisfaction, he approaches the adjuster, with his teeth set for a fight. The adjuster depreciates the schedule 50 per cent, and, if the agent is a desirable one to hold, settles the loss at total; but if the agent needs changing, he goes for a salvage and a fight, raises a row and leaves the company in bad odor in the town.

A large majority of the adjusters, 95 per cent or more, call on the agent, get the particulars of the fire and the character of the claimant, take the agent into confidence and go with him to visit the loss and to be introduced to the claimant. They then sit down with him and his wife, make a neat plan of the floors and rooms in the house, make a schedule of the contents of each room, showing cost new of each damaged or destroyed article, and the cash value of same at time of fire; agree on the loss on each item as they go along; calls attention of the claimant to any article that he or his wife, in their excitement, may have forgotten, sees that nothing is left out that should be in, and nothing put in that should be left

out, and that no article is billed at more than cash value at time of fire; bearing in mind that cash value is not what the article would cost new, but is the sum that a prudent person would pay for it if he had use for it at that time.

The housekeeper checks up the $5 bill of groceries when brought in by the delivery man; the merchant will not let a $10 invoice of merchandise pass without checking up weight, measure, cost per pound or yard and carrying out and proving amounts; so, too, the insurance company is entitled to the bills in detail of property that it buys.

He, the adjuster, while talking cash and settling on a cash basis, does not promise to pay at close of settlement, but gives the claimant to understand that the papers must be passed upon at the head office and if they are found correct, that check for the loss will not be delayed. He can, however, when the loss is closed to his satisfaction, surprise the claimant by paying him, through the agent, then and there, explaining by telling him that because of his honesty and fair dealing, he, the adjuster, will vouch for the correctness of the claim and takes pleasure in paying cash.

In all cases of partial loss, the room or rooms and property should be carefully cared for and cleaned. The looks of things make a stronger impression on the eye than any amount of argument or explanation can on the brain. As an illustration of this fact, we know that a few strokes of a pen or pencil will make a diagram that will convey a better idea of a building to the mind than a page of description can.

The loss on pianos, sewing-machines or other property purchased on the lease installment plan, is limited to the amount paid by the claimant thereon; the balance of the loss on such article is borne by the seller.

When the statement of value and claim for loss has been filed in proper form, the adjuster must pass on the claim and admit the amount of loss on each item as claimed, or if the claim on any item or items be excessive, the adjuster must make a return offer of the amount he will allow on such item or items; and, upon refusal to accept such offer by the claimant, the disagreement under which an appraisement can be demanded will have arisen and the adjuster must then demand an appraisement.

The California Standard form of policy and the Fireman's Fund Coast form provide that the appraisers must be named in writing and the awards verified.

The New York form does not require that the appraisers shall be named in writing or sworn. There is no provision in either of the forms compelling the insured to sign an appraisal agreement.

In an amicable settlement, preliminaries can be mutually waived and an appraisement of loss had on such item or items as the adjuster and the insured do not agree on.

An appraisement should be the last resort of an adjuster in settling a loss.

Jumping into an appraisement without proper preparation and first exhausting all efforts to settle amicably, is imprudent and costly.

A disagreement on a percentage of loss or on a lump sum cannot be the basis for a disagreement that will enforce an appraisement.

Cases will occur after the statement of loss is filed in which an adjuster will be justified in refusing to admit any damage to the property, or to enter into an appraisal; he need not deny liability under the policy, nor admit loss to the property if there be no visible damage, but in such cases the claimant, at the expiration of the required time after filing proof, may sue the company and prove the loss in court.

The adjuster should not agree to submit to appraisal any property that does not show visible damage.

Appraisers on merchandise, reliable and reputable merchants, will, from their mercantile training, look upon submitted stock as thrown on the street for sale; and as an assigned or bankrupt stock is rated at 70 per cent or less (the admission of the adjuster, when he agrees to an appraisal on any stock, immediately drops such stock to 70 cents on the dollar), the appraisers will allow 30 per cent loss at least. The adjuster will demur, but having paved the way for a 30 per cent loss by agreeing to a damage that did not exist, he must swallow his wrath, and the company must pay a loss on undamaged property.

Merchandise losses present many angles to the adjuster; they may be partial or total; there may be a claim for loss by smoke to a cast-iron press, or for water damage to a water-pump intended for pumping water out of a mine. Such claims have been made, and, unfortunately for the credit of the profession, have been allowed. Claims for smoke damage to cigars in airtight tin cases covered with wood, because of fire two or three doors away, have also been allowed; claims for smoke damage to various classes of stocks because of fire next door or in the next block are so common that the merchant who does not make a claim for smoke damage when there is a fire anywhere in his neighborhood is looked upon by underwriters as an oasis in the desert.

Allowing loss on property that does not show damage and that is not damaged indicates weakness in the adjuster, sometimes manifested in order to get business, but more times because he has not the backbone to be fair to the insured and to the company, or because he does not take pains to place the so-called damaged property properly before the insured and insist upon the damage thereon being shown. The adjuster must hail from the State where "Show Me" is the slogan; the adjuster should be ignorant and helpless; ignorant on values until shown, and helpless because he is compelled to follow the contract made by the company and the claimant.

Probably not over one loss in fifty on merchandise comes under the heading of a book loss; the other forty-nine are damage or damage-claimed losses, to be closed by examination of the property and agreement on or appraisement of the amount of loss thereon.

In all cases where the total loss goods do not exceed, say, 10 or 15 per cent of the stock, taking the claimant's verbal statement of the amount of and class of goods in the part of the building where the fire occurred, verifying his story by the debris, agreeing on the amount of loss on the "total loss stock," and then fixing the loss on the damaged goods by agreement or appraisal, is safer than settling by the books.

Where the loss must be adjusted by the books, the inventory should be verified by the previous year's books in order to detect any cases of double entry or purchases charged twice, or stuffing the inventory. This applies particularly to branch stores, or to stores doing a losing business, where stuffing the inventory might be necessary to maintain the character of the branch manager or the credit of the concern.

The net inventory, the purchases at net invoice, the per cent of freight on net invoice, make up the total to be accounted for at invoice and freight. The sales cash and credit, the per cent of profit over invoice cost, and all other transactions as noted in a statement of loss, should be ascertained and agreed on in writing by the adjuster and the claimant before proceeding to find the net loss.

Proofs should not be made up for a total loss if there be any pending unsettled questions, as a claim for total loss can be admitted at any time.

When the figures are agreed on and made up, inquiry should then be made as to inter-insurers or reciprocal insurers, who do not appear until the loss is closed, and not then unless the regular fire insurance company's policies are exhausted.

The adjuster's certificate on the proof as to the amount of and honesty of the loss should be dispensed with, as it is a bad feature if the claim be contested because of acts or facts ascertained after the adjustment.

When the loss to the property is fixed, ownership, names of owners, chattel mortgages, gasoline and other factors that might throw more light on the loss should be inquired into and reported with the proof, but in cases where the policy is voided by acts of the insured or others, and admitted by him, the inquiry must then stop.

Ascertaining the actual value of the stock in the building at the time of the fire, at cost and freight, is the most difficult part of making up a correct book-loss statement; but when this is ascertained, the deductions for depreciation and for additions for appreciation, because of changes in prices or rates of freight, deductions for shelf wear and for out of fashion, for cash discounts, and for the cash value of the saved stock, are merely a matter of agreement and plain bookkeeping.

An inventory as taken up by the insured, is in his judgment the actual cash value of the stock to him at that time, based on invoice cost of the goods with freight added, less depreciation for reduction in invoice cost and for freight, or plus appreciation for increased cost and for freight, at time of fire, and less a final depreciation for shelf wear and out of fashion.

The adjuster (one out of a thousand) who adds freight to the inventory on the say-so of the insured is unfair to the companies, and pays the claimant more than his own valuation of his property.

The current form for making up a statement of loss from books when all of the figures are agreed to, is all Greek to a bookkeeper, and is not always clear to and explainable by the adjuster, and to prevent such misunderstanding, we, on the Coast, generally use the following form:

ADJUSTER'S STATEMENT

Of loss on stock of merchandise (flour) at Smithville, Cal., by fire of December 31, 1909, made for Smithville Insurance Co., under Policy No. 100100, issued to John Smith:

Inventory, inc. freight (8,000 sks. flour at $1.25 ea.)	$10,000.00	$10,000.00
Less items not covered (none)	.....	.....
Net Inventory	.....	.....
Purchases, since, other than local, as per invoices (41,000 sacks at $1.00 each)	41,000.00	.....
Less goods returned (500 sacks at $1.00 each)	$500.00	.....
Less goods in transit (500 sacks at $1.00 each)	500.00	1,000.00	.....
Net Invoice Purchases (40,000 sacks at $1.00 each)	.....	40,000.00
Add Freight (25 per cent) on net invoice purchases (40,000 sacks at 25 cents each)	.....	10,000.00
Add Local Purchases, no freight (none)	.....	.....
Total to be Accounted for at invoice and freight (48,000 sacks at $1.25 each)	.....	$50,000.00
Accounted for as Follows:		
Sales, cash (20,000 sacks at $1.50 each)	$30,000.00	.....
" credit (10,000 sacks at $1.50 each)	15,000.00	.....
Total Sales (30,000 sacks at $1.50 each)	$45,000	.....
Less larter sales of local produce, no profit (none)	.....	.....
Sales at Invoice and Profit (30,000 sacks at $1.50 each)	$45,000.00	.....
Less profit at 50 per cent over invoice (30,000 sacks at 50 cent each)	15,000.00	.....
Sales at Invoice (30,000 sacks at $1.00 each)	$30,000.00	.....
Add freight, 25 per cent on sales at invoice (30,000 sacks at 25 cents each)	7,500.00	.....
" local produce sold, no profit (none)	.....	.....
" stock in warehouse at invoice (10,000 sacks at $1.00)	10,000.00	.....
" freight on same at 25 per cent (10,000 sacks at 25 cents each)	2,500.00	.....
" stock taken for family use at invoice (100 sacks at $1.00 each)	100.00	.....
" freight on same at 25 per cent (100 sks. at 25 cents ea.)	25.00	.....
Accounted for at Invoice and Freight (40,100 sacks at $1.25 each)	.....	$50,125.00
Stock in the building at time of fire at invoice and freight (7,900 sacks at $1.25 each)	.....	$ 9,875.00
Deduct for discounts ....% on.....$.....	$.....	
Deduct for depreciation ....% on.....$.....	.....	$.....
Cash Value of Stock in Building		$.....
Deduct for value in cash of goods saved, as appraised or agreed upon (?)		$.....
Cash value of stock burned in the building		$.....

Dated ..... 19....

..... *Adjuster.*

To verify in a simple manner the correctness of this form of statement in ascertaining the actual value of stock in the burned building at the time of the fire at invoice cost and freight, we apply it to a loss in which the merchandise consisted of flour in quarter sacks, costing at invoice one dollar per sack, freight 25 per cent or

25 cents per sack, and profit on invoice cost 50 per cent or 50 cents per sack, naming in transaction the number of sacks.

STATEMENT OF LOSS

Made up from count of sacks of flour, inventory, purchases, in transit, returned, sold and/or saved.

Inventory	8,000 sacks		
Purchased	41,000		
Total to account for		49,000	
In transit and returned	1,000		
Sold	30,000		
Saved in warehouse	10,000		
Taken for family use	100		
Accounted for		41,100	
Number of sacks burned			7,900
7,900 sacks at cost and freight, $1.25.		Loss	$9,875

FIRE UNDERWRITERS ASSOCIATION OF THE PACIFIC
939 MERCHANTS EXCHANGE

BOOK LOSSES WITHOUT BOOKS.

A careful examination of the claimant under oath will disclose when he commenced business, or when he took his last inventory, and the amount thereof; the amount of money due him and how much cash he had on hand at that time; how much cash he received from sources outside of the business, and put into the stock from that date to date of fire; how much he owed at date of inventory or date of commencing business; how much stock he purchased (get invoices, not statements); how much he owes for merchandise; how much he owes to other parties; how much he paid for freight, rent, clerk hire, improvements, family and personal expenses of all kinds and descriptions; how much cash he paid out on old debts; life insurance, fire insurance, mining, farming, horses, wagons, sporting, treating, poker or other ventures over and above the receipts from such ventures; and how much he had on hand and how much due him at time of fire; value of stock saved at cash, will enable the adjuster to get at the value of the stock burned.

Memorandum agreement of per cent of profit, discount and depreciation is in order before the above statement is put into book-keeping form.

ILLUSTRATION.

Agreed profit	30 per cent
Agreed discount	5 per cent
Agreed depreciation	10 per cent
Jan. 1-08. Commenced business cash capital or inventory	$2 000.00
Jan. 4-08. Cash, sale of farm	2,000.00
Date of fire, Sept. 1, 1908.	
Purchases to that date as per invoices, less returned goods and goods in transit	10,000.00
Freight paid on purchases	1,000.00
To be accounted for	$15,000.00

Accounted for as follows:

Cash paid for merchandise	$ 9,000.00
Cash paid for freight	1,000.00
Cash on hand	200.00
Cash merchandise for family use at invoice, no profit	1,000.00
Cash freight on same	100.00

ILLUSTRATION—Continued

Cash paid for life insurance	$ 100.00
Cash paid for accident insurance	30.00
Cash paid for clothing family	200.00
Cash paid for mining assessments	300.00
Cash paid for church donations	30.00
Cash paid for lodge dues	30.00
Cash paid for social treating, $1.00 per day	243.00
Cash paid for horse and wagon	250.00
Cash paid for horseshoeing and wagon repair, and feed	80.00
Cash paid for licenses	20.00
Cash paid for clerk hire, 8 months at $60 per month	480.00
Cash due from customers for goods	1,000.00
Cash paid for school expenses	100.00
Cash paid for trips to city	100.00
Cash paid for trips, outings	100.00
Cash paid for doctor's bills	100.00
Cash paid for other expenditures	50.00
Total cash and merchandise from store	$14,513.00
Less cash put into the store	4,000.00
Received from sale of merchandise	$10,513.00

STATEMENT OF LOSS.

Sept. 1, 1908. Cash and merchandise to be accounted for			$15,000.00
Accounted for as follows:			
Cash put into the store	$ 4,000.00	$4,000.00	
Merchandise sold	$10,513.00		
Less merchandise for family use at invoice and freight, no profit	1,100.00	1,100.00	
Sales at profit of 30%	$ 9,413.00		
Less profit 30%	2,172.23		
Sales at invoice	$ 7,240.77		
Add freight at 10%	724.07		
Sales at invoice and freight		7,964.84	
Total merchandise at invoice and freight, and cash taken out			13,064.84
Merchandise in store at time of fire at invoice cost and freight			$ 1,935.16
Deduct depreciation at 10% on	$1,935.16	$193.51	
Deduct discount at 5% on	1,843.00	92.16	
Total deductions			285.67
Loss as adjusted			$ 1,649.49

The cash paid out by the insured and cash on hand at time of fire came from two sources: first, from cash or inventory on hand to start with, cash from old debts, rents, dividends or sales of property other than store merchandise; and, second, from sales of store merchandise.

The total amount of cash paid out by the insured and cash on hand at time of fire, less cash on hand to start with and cash from sources other than from store merchandise, gives the cash sales, which with the credit sales outstanding give the total sales of merchandise.

This data with the invoices, cash put in and the agreements on profit, freight and depreciation, make up the statement of loss.

An adjuster should know how to figure ordinary buildings; this knowledge will save time and money for the company; a dollar paid to a good building figurer for an hour's instruction in the hotel room in the evening is a much better investment than double that sum spent in surveying the bad hazards of the town.

The country carpenter usually figures the cost of a building at the face of the policy; but where the adjuster knows something about figuring lumber, hardware, plastering, painting and labor, he can keep the builder in check.

In the matter of making up statements of book losses, when all figures of inventory, freight, purchases, profits, discounts, depreciation or of other factors are found and agreed on, the methods of different adjusters show surprising results.

As a simple illustration we will say: Inventory, $3,000.00; purchases, $3,000.00; freight, 50 per cent; profit, 75 per cent on invoice cost; sales, $8,750.00.

EXAMPLE NO. 1.

Inventory		$3,000.00
Purchases		3,000.00
Freight 50 per cent		1,500.00
To account for		$7,500.00
Sales	$8,750.00	
Less profit 75% on invoice cost	3,750.00	
Net sales		5,000.00
Loss as adjusted		$2,500.00

EXAMPLE NO. 2.

Inventory		$3,000.00
Add freight 50%		1,500.00
Purchases		3,000.00
Add freight 50%		1,500.00
To account for		$9,000.00
Sales	$8,750.00	
Less profit 75% on invoice cost	3,750.00	
Net sales		5,000.00
Loss as adjusted		$4,000.00

EXAMPLE NO. 3.

Inventory	$3,000.00	
Deduct freight 50%	1,000.00	
Net inventory		$2,000.00
Purchases		3,000.00
To be accounted for		$5,000.00
Sales	$8,750.00	
Less profit 75% on invoice cost	3,750.00	
Net sales		5,000.00
Loss nothing		.....

EXAMPLE NO. 4.

Inventory		$3,000.00
Purchases		3,000.00
Add freight on purchases 50%		1,500.00
To account for		$7,500.00
Sales	$8,750.00	
Less profit 75% on invoice cost	3,750.00	
Sales at invoice	$5,000.00	
Add freight 50%	2,500.00	
Sales at cost and freight		7,500.00
Loss nothing		.....

Proof.

Inventory	2,000 sks. flour at	$1.50	cost and freight	$3,000.00
Purchases	3,000 sks. flour at	1.50	cost and freight	4,500.00
To account for	5,000 sks. flour at	$1.50	cost and freight	$7,500.00
Sales	5,000 sks. flour at	1.75		$8,750.00
Deduct profit on	5,000 sks. flour at	.75	per sk.	3,750.00
Invoice cost on	5,000 sks			$5,000.00
Add freight on	5,000 sks. at	.50	per sk	2,500.00
Cost and freight on	5,000 sks. sold			7,500.00
No loss				.....

Form No. 1 is not uncommon.

No. 2 is not common, but we have a few specimens in our loss files; Nos. 3 and 4 are correct.

Form No. 3 gives a proper result; but leaving freight out of the statement is not understood by a merchant bookkeeper, and not always by the adjuster.

Form No. 4 accounts for cost and freight, leaves nothing out, can be understood by both bookkeeper and adjuster and gives same result as No. 3. We prefer No. 4.

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939 MERCHANTS EXCHANGE BUILDING

ELEMENTARY PRINCIPLES OF FIRE INSURANCE LAW

By T. C. COOGAN, Attorney

I will endeavor to treat the subject given me in a manner that may be instructive to you. You are, as I understand, just commencing your careers as business men in the different fire insurance offices of our city, and I take it that a statement of a few of the elementary legal principles relative to that business as conducted here may be of some advantage to you. I will endeavor to talk to you in a familiar, practical way and avoid, so far as I can, the use of technical, legal terms. I have been, as you are doubtless aware, many years associated with the managers of the fire insurance companies here, and have, in a general way, acquired some familiarity with the business. It is carried on in every civilized country and in ours especially it has become most important. It enables commerce and manufacturing to enlarge their operations to an extent that would otherwise be impossible. Not only are property owners protected, but communities are often saved from ruin by fire insurance. The great fire in London occurred at a time when there was practically no fire insurance. The result was that it took years and years for that city to recover from its effects. Our great disaster occurred less than five years ago. Today in and upon the very area devastated by that great fire we see some of the finest hotels, the most substantial office buildings to be found in any city of the world. This condition is mainly attributable to the fact that the property destroyed was insured to an extent that enabled its owners to collect from the fire insurance companies about one hundred and eighty million dollars, sufficient to pay for the improvements to which I have just referred. Were it not for the insurance companies, it is safe to say that it would have taken San Francisco a generation to recover from that great disaster. I was in the neighboring State of Nevada several years ago at a time when practically no fire insurance was transacted there. The several insurance companies that had been engaged in business there withdrew, pending the determination of a question by the Supreme Court of that State. The question was whether or not a certain pretended law that the companies justly considered inimical to their interests had been constitutionally adopted. I was sent there by the companies to argue the negative of that proposition before that court. I went there just after the companies had withdrawn and remained while the case was under submission and until it was finally determined. During that time not a policy was issued or renewed in that State. The effect was that the banks stopped loaning money on real estate, mining companies ceased to purchase machinery or supplies, enterprise lagged, business was paralyzed and uncertainty prevailed everywhere. This condition of affairs impressed upon me the vital importance of fire insurance—how essential it is to carry on the ordinary business of communities. It is a business that affords excellent opportunities to young men; its emoluments are substantial. In

most walks of life one may by study and application fit himself to carry on the business to which he allies himself. But to accomplish this end in the fire insurance business a great deal is requisite. For an insurance man, especially if he be the manager of a company, a position to which all of you doubtless aspire, is required, not only to master that business, but he should have a good insight into all other kinds of business; for, sooner or later, he will be called upon to insure property that will require him to have some knowledge concerning that property, especially the use to which it is applied. An insurance man that insures a mill or a mining property or a ship should have an intricate knowledge of those kinds of business. An insurance man should know something of chemistry, a great deal about the construction of buildings, something of bookkeeping, the value of articles of merchandise and, in these days, a familiarity with electrical appliances and electricity in all its branches. Again, he should know something of the principles of the law, for, day by day, he is confronted with questions that call for the application of rules that are supposed to be familiar to those only that have devoted their lives to the study of legal problems. In discussing the principles of law governing this business, it is proper that we should consider, at the outset, the method employed in its transactions. In our State it is done almost exclusively by corporations. These corporations are divided into two classes—stock companies and mutual companies. The former are organized under the laws of this State or of the different States, or of some country foreign to the United States. In our State they are organized in the same manner as other corporations, but by general law they are restricted as to the extent of the real estate that they may hold, namely, the land upon which their principal office is located, such land as has been conveyed to them by way of mortgage, such as has been conveyed to them to secure loans or in satisfaction of debts. They are restricted as to the payment of dividends and especially as to how they may invest their capital and accumulations. They can issue no policies of insurance until 25 per cent of their capital has been paid in. A corporation created outside this State is a citizen of the State where it is incorporated; it has no constitutional right to do business here and transacts its business hereby what is known as "comity," that is, by consent. A State granting such comity to foreign fire insurance companies can exact, generally, such conditions and provisions as it sees fit. As a rule, the several States require of fire insurance companies that they shall, at stated periods, file reports showing their financial condition. These reports are filed with an official called the Insurance Commissioner or the Insurance Superintendent, whose duty it is to supervise such companies. The several States create a standard of solvency and require a reserve to be carried composed of a percentage of the premiums the company receives. They are also required to make deposits of money in some States for the benefit of the policy holders residing in the United States, and, further, they are, as a rule, required to designate an agent upon whom service of process may be had. The tendency seems to be to regulate fire insurance more and more by legislation.

It is not necessary to devote much time to "mutual companies." We have in this State two acts relating to them, both being passed

in 1907. One relates to county mutuals; the other, to companies authorized to insure certain classes of property, such as lumber yards. Both classes of companies are subject to the jurisdiction of the Insurance Commissioner. By insuring therein, the policy holder becomes a member of the corporation, and as such is liable for his proportionate part of any assessment levied by the company on account of losses and expenses incurred. The amount of business done by these companies in this State would indicate that they are not very formidable competitors of the stock companies.

The business, then, as I have stated, is conducted substantially by corporations. These corporations issue what is known as a "policy." A policy is defined thus by the code of this State: "The written instrument in which the contract of insurance is set forth is called a policy of insurance." Two years ago the Legislature passed an act establishing what is known as the "California Standard Form of Fire Insurance Policy." As early as 1872 the Legislature adopted numerous provisions governing the subject-matter of insurance. These provisions were copied, mainly from the laws of the State of New York. In 1886 the State of New York adopted a standard form of fire insurance policy, and that form became of general use in this State and throughout the Pacific Coast States and Territories, so that substantially all the business transacted on this Coast was done under what was generally known as the "New York Form." The standard form of California is similar in many respects to the New York Form. It is modeled after it. It differs from it somewhat and perhaps it would be proper for me at this stage to point out to you, in a general way, of what these differences consist. I have here a California Form and a New York Form. Mark these distinctions:

First—Notice the outside of the California policy. Observe the printed matter shown in bold type. Under the headings, "Read This Policy," "Insurance Company Is Liable Only for Cash Value," "Policy Is Void," etc., "Policy Is Suspended," etc., "Insurance Ceases," etc. These requirements are not found upon the New York Form at all. They are an innovation, and, in my judgment, a very sensible one. The idea could advantageously be followed in the other States, where Standard Forms have been adopted.

Second—On opening the policy, notice that there are distinct headings, which headings are printed in italics. This, too, is novel and is a proper change. It enables one to find, at a glance, the precise subject for which he is looking. Notice again, on page 3, it contains a clause headed, "Matters Suspending Insurance." It provides, in substance, that "unless otherwise provided by agreement endorsed hereon or added hereto," the company shall not be liable for a loss while certain conditions exist, but that, during that period of time, the insurance shall be suspended. This is rather novel legislation and its effect will have to be passed upon by the courts. This idea probably emanated from the fact that several very respectable courts had decided that the violation of a condition in a policy that worked a forfeiture, if discontinued during the life of the policy and if non-existent at the time of the loss, the policy would revive, the insurance be restored and the insurer liable. California decisions had never gone to this extent, but those of other States had.

The Legislature probably had these decisions in view when they established this rule.

Note that these conditions which operate as a suspension of the insurance are seven in number and are designated A, B, C, D, E, F and G. Note further that each of them, except B, commences with the word "While."

Permit me now to call your attention to certain matters that are found in the New York Form and Forms adopted in other States, but have been omitted from the California Form:

(1) Our form omits the word "direct" from the phrase "direct loss or damage," found in line eleven. This is a mistake. The meaning of the words "direct loss or damage," as used in a fire policy, had been construed by many decisions of the courts and the rights of the policy holders and the companies had been defined to mean all loss resulting from fire as the efficient or proximate cause. What the effect of the omission of this word "direct" may be is a question that can be determined only by the courts.

(2) The New York Form states that the company shall not be liable for certain classes of property unless liability is specifically assumed thereon, that is, by writing or designating the property in the policy. The California Form follows this same idea, but it omits four classes of property, namely, "awnings," "signs," "implements" and "tools."

(3) The New York Form contains this clause: "But liability for direct damage by lightning may be assumed by specified agreement thereon." This clause is not found in the California Form. It does not permit of so-called "lightning" insurance.

(4) The New York Form contains these clauses: "If an application, survey, plan or description of property be referred to in this policy, it shall be a part of this contract and a warranty by the insured." "This policy may, by a renewal, be continued under the original stipulations, in consideration of premium for the renewed term, provided that any increase of hazard must be made known at the time of renewal, or this policy shall be void." It contains, also, a clause stating, in substance, that its conditions should apply to mortgagees. Also, a provision requiring the insured to furnish a certificate of magistrate or a notary public not interested in the loss, living nearest the fire, stating that he had investigated the circumstances and believed that the insured had honestly sustained loss to the amount claimed. Also, a claim stating that liability for reinsurance shall be specifically agreed upon. Also, one making the form applicable to certain mutual companies. All these clauses have been omitted from the California Form.

Having thus pointed out to you certain of the omissions, permit me now to call your attention to certain changes. The option given the company issuing the policy to repair, rebuild or replace property lost or damaged with other of like kind and quality upon giving notice to the insured, has been materially changed. This right, by the California Form, is limited to "building or structure or machine or machinery used therein." This is a significant change and time alone can tell what its effect will be. My own idea is that it was a mistake on the part of our Legislature and that the change will have a tendency to increase rates in this State. What are known

as the "chattel mortgage clause," the "fallen building clause," the "removal clause," the "cancellation clause," the clause requiring the furnishing of plans and specifications, have all been changed, but it would take me too long to point out in what these changes consist, as I must hurry along. A slight change was made in the clause relating to "concealment and misrepresentation," but it is not material and does not, in my judgment, alter the legal effect of that clause as contained in the New York Form.

Having called your attention to how the insurance business is transacted, namely, by corporations, and the means by which it is transacted, namely, by a policy, let me now speak of a few of the fundamental principles of law that underlie the policy and that it would be well for you to bear in mind in the prosecution of your work:

First—There is a great underlying principle that a fire insurance contract is one of indemnity only. This rule is of universal application. It means that the company promises that the financial loss to the insured will be made good, not exceeding the amount named in the policy. It is founded upon reasons of policy which demand that the interest of the insured, at all times, shall consist in the preservation of the property insured, rather than in its destruction. This principle underlies the contract of fire insurance and it can never, without doing violence to its essence and spirit, be made by the insured a source of profit, its sole purpose being to guarantee against loss or damage. On this theory, where insured property is destroyed by a fire negligently started by a railroad company, the owner is not entitled to compensation for his loss from both the insurance company and the railroad company. He can recover from one only. His contract with the insurance company is one of indemnity. Mark, it is not a promise to pay a specified sum in the event of the destruction by fire of the thing insured, but it is a promise to make good to the insured for the loss occasioned to him because of the destruction of his property by fire. Failure to apprehend and apply this fundamental principle is responsible, in my judgment, for some of the differences that too frequently arise between policy holders and the companies. In some of the States, it is true, there exist what are popularly known as "valued policy laws"; that is, where the value of the property covered is fixed by the contract and cannot be disputed. In certain States these laws are confined to policies covering "buildings" alone; in others, they embrace both real and personal property. It is not my purpose here to discuss this character of legislation, but in passing, let me say that it must be clear to you that such laws run counter to the first principles of the law of insurance and frequently do a great injustice to the parties concerned. To the companies, because it compels them frequently to pay, in case of destruction, the full amount named in the policy, although, in point of fact, the loss is only for a portion thereof. The consensus of opinion everywhere is, by those who have given this subject attention, that such laws prompt dishonest men to over-insure and then burn their property. This results in increase of rates, to the detriment of the other insurers. It is not generally known, hence I desire to call it to your attention, that the act of California creating a standard form of

policy would seem to permit of this character of insurance. Section 3d of the act reads thus:

"By special agreement endorsed on the policy or added thereto, the provisions regarding appraisement or apportionment of loss may be waived and the valuations of all or any of the insured property, in case of total loss, may be agreed upon in advance of loss."

Besides, about ten years ago, the Legislature of our State added a new section to our Civil Code. In my judgment, it is the fairest valued-policy law that exists in the United States today. Let me read it to you:

"Whenever the insured desires to have a valuation named in his policy, insuring any building or structure against fire, he may require such building or structure to be examined by the insurer, and the value of the insured's interest therein shall be thereupon fixed by the parties. The cost of such examination shall be paid for by the insured. A clause shall be inserted in such policy stating substantially that the value of the insured's interest in such building or structure has been thus fixed. In the absence of any change increasing the risk without the consent of the insurer or of fraud on the part of the insured, then in case of a total loss under such policy, the whole amount so insured upon the insured's interest in such building or structure, as stated in the policy upon which the insurers have received a premium, shall be paid, and in case of a partial loss the full amount of the partial loss shall be so paid, and in case there are two or more policies covering the insured's interest therein, each policy shall contribute pro rata to the payment of such whole or partial loss. But in no case shall the insurer be required to pay more than the amount thus stated in such policy. This section shall not prevent the parties from stipulating in such policies concerning the repairing, rebuilding or replacing buildings or structures wholly or partially damaged or destroyed."

The next rule, which is also of universal application, is this: that a person insuring property must have an insurable interest in the subject-matter, or else it is void. It is a maxim of the law that insurance, without interest, is illegal. This rule is akin to the one we have just been considering. Section 426 of the Civil Code, which relates to the organization of insurance companies in our State, in express terms limits the power of such companies "to make insurance on insurable interests within the scope of their articles." Nearly forty years ago our Legislature adopted this rule. "The sole object of insurance is the indemnity of the insured, and if he has no insurable interest, the contract is void." The philosophy of the rule is that if a person could insure property in which he had no interest, then a contract of insurance would degenerate into a mere wagering one and become a gambling transaction, which would be contrary to the policy of the law itself. There was a time in England when such contracts of insurance were permitted, but the temptations they afforded to fraud and crime became so prevalent that Parliament passed the act of the Eighteenth of George the Second, prohibiting wagering fire insurance contracts; that is, where parties had no interest in the property itself. This principle found its way into the common law, which was brought to this country by its founders, and it has been rigidly adhered to in every State of the Union wherever the common law was adopted. Such interest and the loss of it is of the very essence and constitutes the foundation of the insured's right of action upon his contract.

In passing, let me call your attention to this fact, that there is a broad distinction between an insurable interest and a sole and unconditional ownership. What is an insurable interest? That is oftentimes very difficult to determine. One test usually determines

the question, however. This is it: Will a person insured receive a benefit from the continued existence of the property and will he suffer a pecuniary loss from its destruction? If so, he is said to have an insurable interest. Our Civil Code, Section 426, thus defines it:

"Every interest in property or in relation thereto or liability in respect thereof, of such a nature that a contemplated peril might directly damnify the insured, is an insurable interest."

Mark you, that a person has an insurable interest if that interest accrues to him personally or as the agent or representative of others. An insurable interest may be legal or equitable, vested or contingent, existing or inchoate.

Having pointed out to you the necessity for the existence of the insurable interest and of what it consists, the next question is, When should it exist? It should exist at the time the contract is made and at the time loss occurs. It may not have existed in the interim. This rule was incorporated into the code of our State in 1872. It was copied from the rule that prevailed in New York, as I understand it, from the very organization of the State itself. A temporary alienation does not affect rights under a policy if the subject-matter of the insurance is reinvested in the grantor or vendor at the time of the fire. As I have already stated, there is a broad distinction between an insurable interest and a sole and unconditional ownership.

A company can waive almost anything but this. It cannot waive the question of insurable interest. The reason is that it is not competent to write an insurance where an insurable interest is wanting, whether the facts are known or not. The difficulty is inherent in the case and is beyond the reach of the waiver. Courts have gone to an extraordinary length at times on holding companies have waived certain matters; but none of them have ever decided that a company could "waive" this point.

The next principle, and remember I am stating only those concerning which there is rarely any dispute, is this, that the loss or damage covered by a fire insurance policy is a loss or damage by fire; not by earthquake, not by lightning, by explosion, tornado or windstorm, but by fire. What is meant by fire? The courts have construed this word, as found in a policy, to mean "accidental combustion accompanied by a visible flame or glow." But remember this, for it is a rule well established that "accidental" means "accidental as respects the insured." If the insured burns his own property, he may suffer a loss or damage by fire, but not as the word "fire" is used in the policy. If not accidental as respects him, he cannot recover.

Of course, the policy itself contains no provision to that effect, but the very nature of the contract precludes recovery under such circumstances. But a fire policy is not confined to the damage done by flames. It covers damage done by the fire. Generally speaking, a fire policy covers not only damage done by the flames, but all damage that is the proximate consequence of the fire within the meaning of the policy. Thus, damage done by water used in extinguishing fire; damage done by removal of goods to avoid the fire; damage by theft during the fire; damage done by the destruction of buildings by order of the municipal authorities to prevent the spread

of fire, have all been held by the courts to be the consequence of fire and thus within the terms of the policy.

Here is another rule, which you will meet almost daily, and, so far as I know, it is also of universal application. The courts in our State and elsewhere construe the language used in policies liberally and in favor of the insured wherever there is any ambiguity in the language employed. Again, they hold that the provisions of a policy limiting the liability of the company should be strictly construed as against the company. These rules are based upon the broad principle that in cases of uncertainty or ambiguity, contracts should be construed against the party responsible for such uncertainty, and as policies of insurance are almost always prepared by the insurer, this rule is especially applicable to the construction of a contract of insurance. I have tried a great many insurance cases and have always observed the reluctancy of courts to deprive the insured of the benefit of liability by a narrow or technical interpretation of the contract. Much litigation has arisen in our State from a careless use of the words employed in formulating the contract. So it would be well for you to be exceedingly careful in your descriptions of property, that no uncertainty as to your meaning shall creep in. If you are not careful and the case should ever reach the Supreme Court of this State, the chances are that court will construe the contract against you. In no other State of the Union has this rule been more rigidly adhered to than in our own. A year ago this very month, our Supreme Court, in deciding the case of Raulet vs. Northwestern National Insurance Company of Milwaukee, used this language:

"It must be presumed, ordinarily, that persons are familiar with the terms of written contracts to which they are parties, and in the absence of fraud they are justly bound by the provisions therein, but the rule should not be strictly applied to insurance policies. It is a matter almost of common knowledge that a very small percentage of policy holders are actually cognizant of the provisions of their policies and many of them are ignorant of the names of the companies issuing the said policies. The policies are prepared by the experts of the companies, they are highly technical in their phraseology, they are complicated and voluminous—the one before us covering thirteen pages of the transcript—and in their numerous conditions and stipulations furnishing what sometimes may be veritable traps for the unwary."

In conclusion, let me say that in the preparation of this talk I have endeavored to present such subjects as are likely to engross your attention. To deal with these subjects exhaustively would require a longer time for their preparation than I have been able to devote to this matter. If I have succeeded to the extent of causing any of you to resolve that you will pursue these subjects further and investigate them upon broader lines, then I shall be amply compensated for the labor bestowed in preparing them. I am prompted by the remarks made by your President about the prejudice against insurance companies to add another thought—that is, in dealing with the public, treat them fairly, justly and honorably. At the present time, especially in our own State, public officials, juries and courts are prone to act adversely to the interests of the fire insurance companies. In the making of contracts, in the adjustment of losses, in the payment of claims, treat the people in such a manner as to aid in removing the prejudice that seems to prevail in certain quarters against insurance companies. You are the men upon whom the

companies must depend to bring about this most desirable result. Many of you are bound, as time goes on, to occupy prominent positions in the insurance fraternity on this Coast. The destiny of some of the great companies will pass into your hands. See to it that your dealing with the public will be such that the prejudice against the companies will become a thing of the past and that your companies will receive the same treatment at the hands of the courts, juries and public officials as those engaged in any other worthy business.

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THE FIRE WASTE, FIRE PROTECTION, AND FIRE PREVENTION

Abstract of Address by W. H. MERRILL, President National Fire Protection Association, before joint meeting of The Fire Insurance Society of San Francisco and San Francisco Credit Men's Association.

The "fire waste," "fire protection," "fire prevention" and "loss by fire" are not terms to conjure with, possibly because they are very old and because they are not open to much argument.

They are, however, of great importance as affecting the material welfare of the nation as a whole, and are of direct obligatory and pecuniary interest to each one of us having families to protect and property to preserve for our family's use.

Let us begin with the fundamental principle that each loss by fire is a drain upon the material resources of the country, irrecoverable through the collection of insurance moneys.

A fine business building with its merchandise is an asset in the created resources of the nation. The building burns, the contents are a total loss. The asset is wiped out. Taxing the fortunate for the benefit of the unfortunate will not bring it back. This is elemental. Consequently, the value of our annual ash heap is an annual debit against the wealth of the people of the United States of America. How much do we lose annually from this source? We know about recent conspicuous cases—such as the loss of seventy-five millions at Baltimore, and of three hundred and fifty millions at San Francisco—but what is the annual average taken over a period of years? The average annual loss by fire in the United States during the past ten years has been over two hundred million dollars, and during the past five (5) years has averaged over two hundred and fifty million dollars.

An average loss for the last five years of two hundred and fifty millions means a loss of about thirty thousand dollars for each year. One thousand two hundred and sixty million of dollars in the products of human toil have been wiped out of existence in the brief space of 5 years. The values represented by the fire waste would more than pay the stock dividends of all the railroads. It exceeds the revenue of the national postoffice; it is greater than the production of gold or silver.

The annual number of fires in American cities averages forty for each 10,000 of population, as compared to eight for each 10,000 of population in European cities. The annual per capita loss in Australia, Denmark, France, Germany, Italy and Switzerland varies from 12 cents in Italy to 49 cents in Germany, with an average of 33 cents; in the United States the average is $2.47. Berlin has a population of 3,000,000. Its average annual fire loss is one hundred and seventy thousand dollars. Chicago, with its population of 3,000,000, burns up annually nearly five million dollars of values. We destroy more property by fire than do any four nations in Europe.

Is there anything beyond this two hundred and fifty million dollars which we should include as America's contribution to Waste by Fire? I am not among those who add the cost of all fire departments and other things which are not waste in any sense to their computations on this subject. I am of the humanitarians, who feel that America's greatest contribution consists of her men, her women and her children burned alive as sacrifices to the ignorance, carelessness and greed of her citizens.

Before the dollar marks I would write the list of those who perished at the Iroquois Theatre in Chicago, on the steamer General Slocum at New York, in the hall at Boyertown, at the school in Collingswood, in the mine at Cherry, and in lesser numbers at many other places. The remembrance of their cries and the horrors which they suffered should appeal to us more strongly than the money loss, be it ever so large. What sacrifices would not be made could the children burned at the Iroquois, at Boyertown, at Collingswood, and the men at Cherry be returned to their families? They would include some things greater than money, I am sure.

Taking all of these factors into consideration, is this not then a subject of real present and vital importance to the American people?

Many of us have discussed quite at length and formed fixed opinions as to the need of the country in building up a navy to protect us against the sometime invasion of a foreign foe. Are we consistent in neglecting to consider the necessity for protection against an ever present foe within our borders, which is annually killing more people than all our wars of recent years and destroying property values equivalent to the price of a fairly large new navy every year?

We have joined in thoughtful consideration of many plans which have been devised covering various proposed relations between the people and the railroads. Have we thoughtfully considered any measures for the relief of the people from an annual debit item against their resources in excess of the amount all of the railroads have ever returned to their stockholders in their most prosperous years?

Government expenditures in excess of one billion dollars per year have been adversely criticised as extravagant, but little discussion has been attracted by the total loss of a quarter of this amount annually through waste by fire.

If, in passing upon a man's credit, you found that his expenses of say one hundred thousand dollars per year seemed abnormally high in proportion to his income, and if further it was brought to your notice that he had incurred an additional loss during the year of twenty-five thousand dollars, due to some cause largely preventable, would you ignore the latter item? I do not think that you could.

I have given you an outline of the facts in this matter. It may now interest you to hear what is being done in some directions toward securing a reduction in this,—which has been called the GREAT BURNT offering. (Mr. Merrill then described the organization and methods of the Underwriters' Laboratories in Chicago,

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and the building up of its work throughout the United States and Canada. He also referred to the National Fire Protection Association, the National Board of Fire Underwriters, and other organizations, and the educational courses at the Armour Institute of Technology.)

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THE REDUCED RATE AVERAGE CLAUSE

By JOHN W. GUNN

Deputy Assistant Manager of the Liverpool and London and Globe Insurance Company

A small boy once wrote an essay on pins, and among other trenchant aphorisms, he gravely submitted "That pins saved a lot of people's lives by their not swallowing them." A few years before the 1906 conflagration the Board of Underwriters attempted the compulsory application of a co-insurance clause, ranging from 70 to 100%, within the fire limits of San Francisco; but because of misrepresentation by non-board companies and misunderstanding by property owners, the proposal could not be effected. Just think what would have happened had the Board's very reasonable and just proposition been put into operation. If, on the one hand, the property owners had availed themselves of say, on the average, the 80% clause, and complied with the contract, the losses to the companies would have been about double what they were in the district specified. On the other hand, however, had the property owners, through ignorance or cupidity, paid no attention to the ratio of insurance to values, and the losses had been partial instead of total, the relative smells of the earthquake clause and the co-insurance clause might be likened to the difference between attar-of-roses and the essence-of-slaughterhouse. Verily, "pins save lots of people's lives by their not swallowin' them."

The great majority of losses in protected communities are partial. Moore estimated that 68% of the losses in number were under $100 in amount; 15% over $100 and under 25% of the value of the property; 7% in number between 25 and 50%; 5% between 50 and 80%, and 5% total. If the losses were all total there would be no demand for a reduced rate average (or co-insurance) clause. The probability of salvage, however, is one of the things connected with fire insurance that the average city property owner is keenly alive to. There is only one thing he knows more about, and that is that rates are too high. He knows all about that and knows it all the time. He figures that if a fire visits his premises, the Fire Department will see that the loss is partial as to property, and he will see that it is total as to insurance. So, by playing both ends against the middle he is able to obtain the maximum protection for the minimum premium. Of recent years, however, the conflagration goblin has been roosting on the nerves of the city insured. Every time an alarm is turned in he sits up and wonders if his partial protection will get him back into business if the fire develops into a conflagration. Here is where the insurance companies offer to meet him more than half way. They tell him to carry a larger amount of insurance to value. He says he can't, because the rates are too high. Always the rates. We then offer to make substantial reductions in this rate if he will contract with

us to carry up to or exceeding a certain percentage of insurance to value, ranging from 60% to 100% the higher the percentage the lower the rate. We do not particularly care how much or how little of our commodity he desires—he decides that for himself—our prices are fixed, like his own, lower rates being made for wholesale quantities than for retail purchases. All this mystifies him, and we illustrate our proposition by relating to him the experience of Si Perkins, of Hayville.

Si made good money in the dairy business, because there was always a good rainfall in and around Hayville. By and by he bought out Bill Jones, the store-keeper, hook, line and sinker, and found himself in possession of a good brick building and a well selected stock of goods. The reduced rate average (or co-insurance) privilege had just been granted to Hayville, and a bright agent approached Si regarding insurance. The rates were too high, and he couldn't afford it. The agent skirmished around, however, and proposed that if he would carry insurance to the full value of his building, $10,000, the rate would be cut from 1% to ¾ of 1%. This was interesting to Si and he wanted to know how the game was worked, having in mind, no doubt, the scientific method of making four quarts of milk fill eight one-quart bottles. It was explained that the companies would simply add the following supplemental contract to the regular policy form:

"It is a part of the consideration of this policy and the basis upon which the rate of premium is fixed, that the assured shall maintain insurance on the property above described, to the extent of 100 per cent of the actual cash value thereof, and failing so to do the assured shall be an insurer to the extent of such deficit, and in that event shall bear a proportion of any loss. This clause shall apply to each item above described separately. It is understood that this clause shall not apply to losses which do not exceed five per cent of the insurance."

"Is that what you call the co-insurance clause?" asked Si, suspiciously.

The agent admitted that it was.

"Then, by Heck, you can't work it off on me," he replied, "for my neighbor, Ole Olesen, who herds Swan Swanson's cows, says that the co-insurance clause is only another way the fire insurance companies have of robbing us fellows."

All right; we chuck the co-insurance clause, and read to him the Reduced Rate Average Clause, as follows:

"In consideration of the reduced rate at which, and the form under which, this policy is written, it is expressly stipulated and made a condition of the contract that, in event of loss, this Company shall be liable for no greater proportion thereof than the amount hereby insured bears to 100 per cent of the actual value of the property described herein at the time when such loss shall happen, nor for more than the proportion which this policy bears to the total insurance thereon.

"If this policy be divided into two or more items, the foregoing conditions shall apply to each item separately."

This clause seemed to strike Si as being all right, but he would have nothing to do with the co-insurance clause. "Now suppose," he suggested with a crafty wink, "that I take one of these new-fangled policies for say $1000, and just naturally forget to get any more insurance, and a fire comes along and burns a thousand dollar hole in the roof, you would have to pay it all, wouldn't you?"

"Not on your alfalfa," answers the agent. "As the 100% Reduced Rate Average Clause obligates you to carry full insurance

to value, this one thousand dollar policy would pay no greater proportion of the loss than $1000 bears to $10,000, the actual cash value of the building; and its contribution to your $1000 fire would be just $100. If you fail to procure the other $9000 you become the Goat Mutual and have to pay, or stand, nine-tenths of the loss yourself."

"Well, what's the difference between that and the co-insurance clause?" inquired Si.

"None whatever," replied the agent.

"Another buncoe, by Heck," was the wrathful rejoinder.

Now, here's what happened, and the facts are vouched for by my old friend, Uncle Wm. Sexton; The bright, wide-awake agent did not place the insurance on Si's building; but three scrub competitors, who knew nothing of the business, but offered to take the premiums in trade, each placed a policy of $2000 as follows:

Company "A," $2,000, without reduced rate average clause.
Company "B," $2,000, with the 60% clause.
Company "C," $2,000, with the 80% clause.

Total, $6,000

Company "A" stood to contribute all, or its pro rata of any loss, up to the face of its policy, and obtained a premium of	$20.00
Company "B" stood to pay two-sixths (or one-third) of any loss not exceeding $6,000, and obtained a premium of	18.00
Company "C" stood to pay two-eighths (or one-quarter) of any loss not exceeding $8,000, and obtained a premium of	16.00
Total	$54.00

For $21 more the insured could have obtained $10,000 insurance with the 90 or 100% Reduced Rate Average Clause, and in the event of the total destruction of the building would have been fully protected, instead of losing $4000, which would have happened under the arrangements made.

A fire did come along, but instead of a $1000 hole in the roof, there was a general damage of $3000, and the adjuster apportioned the loss as follows:

Company "A," having no reduced rate clause, of course contributed one-third, or	$1,000
Company "B," finding that the 60% clause had been complied with, also contributed one-third	1,000
Company "C," however, stood on its contract to contribute on the basis of 80% insurance to value, and paid one-quarter of the loss	750
Si, having failed to keep his contract with Company "C" to maintain 80% insurance to value, had to call upon his Goat Mutual to make good. In other words, he had to stand a loss of	250
Total	$3,000

On the other hand let us suppose that the 80% contract had been observed, and all companies had the clause attached to their policies; Si would have paid $10 more premium for $2000 more insurance and saved $250 in the adjustment, as each company would then have paid $750.

The Reduced Rate Average Clause does not affect the settlement of a loss:

1. When the conditions of the clause have been complied with.
2. When the property is damaged to or beyond the amount of insurance to value agreed upon.
3. (In this State) When the claim does not exceed 2% of the total insurance on the property.

No doubt many of you wonder why we cannot extend the privilege of the Reduced Rate Average Clause to unprotected properties and communities, but on the other hand often demand the three-fourths value clause, which limits the insured to protection not to exceed three-fourths of the value of the property covered. This looks like discrimination in favor of the large cities, as against the small towns. I have already tried to point out to you briefly the tendency of the property owner, protected by adequate fire-fighting facilities, to underinsure. In doing this he shifts a disproportionate ratio of the taxation necessary to maintain proper fire protection, on to the fire insurance companies, by first obtaining material reduction in rates, and by then reducing his insurance to an amount which he estimates will meet his partial losses, and no more.

It would seem that the only way the companies can meet this trick is to establish rates on a contemplated total loss basis, and then make liberal reductions in consideration of increased insurance purchased by the property owner.

The unprotected property owner, on the other hand, has no fire protection, and consequently no taxes to pay on that account. He is alive to the fact that if a fire gets a start in his building it is a hundred to one shot that the result will be a total property loss, and he takes on as much insurance as he can pay for, or the companies permit. If we permitted these unprotected clients to fully insure themselves against total losses, there would certainly be a tendency to carelessness which would largely increase the loss ratio of companies writing that class of business.

As a general principle, then, the companies have sought to require the three-fourths value clause in those risks where there is a tendency on the part of the owners to over-insure; and the co-insurance clause in those risks where the tendency is to underinsure.

I have not attempted to go beyond elementary illustrations in this little skit, because to follow the ramifications and applications of the Reduced Rate Average Clause would carry us through the entire field of insurance, marine as well as fire. In theory Complete Indemnity is the ideal; in practice, as fire insurance is now conducted, we, however, handle it with the same respect that we do the honey bees when we attempt to separate them from their plunder, knowing that there are things other than honey to be taken into consideration. In the admirable library of the Underwriters' Association which I understand is at your service, this subject is treated exhaustively by numerous writers. I especially recommend to your attention a paper by Guy Francis, reported on page 15 of the Proceedings of 1905; a paper by A. W. Thornton on the Co-insurance Clause vs. the Average Clause, reported on page 98 of the Proceedings of 1902; the critical and elaborate comments of Moore, in his remarkable book, "Fire Insurance and How to Build," etc., etc.

A paper of this kind cannot go farther than to direct the student's attention to a subject. The "Reasons Why" and the meat of the matter, must be dug out individually with patience and perseverance; and it is only the patient and persistent plodder who arrives at the "reasons why," and finally lands the 'possum.

I predict that, in the not distant future, the underwriting education developed by yours, and kindred institutions, will bring the insuring public to realize that there is a distinction between the mission of the insurance agent underwriter who sells a policy of insurance, collects the premium, retains the commission, remits the balance, keeps on behalf of the Company the run of the risk and the insured until the policy expires; and, on behalf of the insured, watches the solvency of the company until the loss thereunder, if any, is paid; and the book agent kind who sells the article, closes the contract, collects the commission, and don't give a hang whether his principal goes broke or his client gets cinched. The agent underwriter has the care of his company and his client on his mind all the time; the other fellow has neither care nor capacity to rise to the occasion. That, however, is another story, and the only safe thing for me now to do is to bid your Good Night.

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BUILDING CONSTRUCTION

By Professor CHARLES DURLETH
Of the University of California.

(Note—Professor Durleth spoke extemporaneously, devoting himself principally to the explanation of a large number of stereopticon views which he exhibited. These views dealt mainly with fire damage to steel columns, trusses and girders during the great conflagration resulting from inadequate protection, and the lecturer pointed out the defects and suggested the proper remedies. Much discussion was given to the relative values of tile and concrete for such protective purposes, the speaker drawing his conclusions from the comparison of actual cases. The lecture closed with a series of valuable plans and suggestions for the proper safeguarding of steel weight-carrying columns.)

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THE STANDARD FORM OF INSPECTION REPORT

By W. H. TICKNOR
Engineer of the Fire Underwriters' Inspection Bureau

A STANDARD REPORT is the form of report adopted by the Uniformity Association, whose object it is to enable the reader to better understand the value of a risk and interpret the writer's meaning by using a form of report with which he is familiar, and which is also very clearly expressed. They decided that it should be written more or less in a narrative form, but be divided into several headings, and these headings into sub-headings, and that all headings and sub-headings should appear in some regular order.

Our aim in writing these reports is to give the reader a picture of the risk as seen through the inspector's eyes.

The object of this paper will be to explain the details of a standard report.

When a risk is written for the first time as a standard report it is given a number. As long as this location is occupied by a risk worthy of calling for a standard report it retains this number. The owner, class of risk, and even buildings may be changed, but this particular location will still retain its original number. If, however, buildings are permanently removed, or the occupancy is permanently changed so as not to require a standard report, the number is then taken away and used on some new risk.

Date and Inspector's name are self-explanatory.

Often times we find two large firms occupying the same building. In such a case unless the building has a name we put the name of each firm into the title, as, for instance, "Jones and Company—Smith and Company."

Risks are divided into classes, and one class may embrace several kinds of risks, as, for example, "Wood Workers" include all risks using principally wood in their processes. Just so another is a "Metal Worker," and so on. Briefly, risks are divided into classes according to their special hazards.

The LOCATION of a risk is very important, and should be exact.

The "SANBORN MAP HEADING" is self-explanatory, as are "Buildings and Machinery Owned By," "Hours of Operation," "Goods Made," "Raw Stock," and "Processes."

Under the heading "MACHINERY" we give a small description in a general way, to attract attention to the good and bad features. It is obvious that new machinery is better than old, not only because it is more fire proof, but the latter may break and destroy part of the fire protection, or do damage of some other nature. If we say it is not hazardous the reader will not pay much attention to this feature later on in the report, but if we say it is hazardous he will be curious to know why it is so. Machinery must not be crowded,

for this will prevent its receiving the proper cleaning and oiling. Such a state would also prevent firemen and fire appliances from reaching a high degree of efficiency. When machinery is all on one floor we generally find no stock on this floor. As most fires originate around machinery we do away with large water damage to stock. Some machinery is not subject to water damage, such as the normal equipment of a foundry, but on the other hand all textile machinery is greatly damaged by water.

Machinery that is easily replaced is that which the manufacturers carry in stock, and is readily set up. All special machinery necessitates a considerable length of time to install, as well as to manufacture, and in the meantime a company carrying the "Use and Occupancy" insurance is losing money. We give a list of the different machines in order that the reader may obtain an idea as to how complete a plant it is of its class.

The "SUMMARY" is just what its name implies, and touches lightly on every feature of the report. It not only furnishes a busy man with a more or less complete idea of the entire risk, but points out to him the principal features which we want him to notice further on in the report. Therefore the "Summary" is put near the front of the report rather than at the end. Practically all rating of the different features of the risk is done under this heading. Ratings is a subject which has been greatly discussed, and no two men judge a risk in the same manner. Some men are inclined to underestimate the value of a risk if it is in a class they consider hazardous. Rating is all very well when the inspector doing it is reporting to one company, which knows just what he means by "Good," "poor," etc., but when reporting to as many different companies as a large Inspection Bureau is required to do it really carries very little weight. We prefer to draw up a perfect picture of the risk and allow the reader to do his own rating.

The headings, "PROMINENT DESIRABLE AND UNDESIRABLE FEATURES," are also a help to the reader to point out to him the good and bad points of the risk as the inspector sees them, and also emphasizes them in a way that could not be done except by bringing them together under these headings.

In reading a standard report you cannot but realize that all points of particular interest stand out and are repeated several times. That is one of the great advantages of this form of report. When a man reads an ordinary report where one feature follows another without any idea of order or separation into headings, he finishes without having any real comprehension of the risk, but our report forces him to see what we want him to.

The heading "CONSTRUCTION" is the first of the detail work on a Standard Report, and tells of the walls, exterior openings, vertical openings and other things that affect the fire hazard of the risk. Some bureaus go more into details with construction than others. In my opinion the most important things to mention are the number of stories, roof, general construction and state of repair. If building is fire proof, the fact is mentioned along with dimensions of walls, whether brick, stone or concrete, and the protection of the steel work. All materials used in a building's construction should be mentioned. The exterior openings are impor-

tant on account of exposures and draughts. A blank wall is of course the best, but one with protected openings is the next best. The floors should be explained, giving their thickness. Then all vertical openings should be mentioned, as well as the manner in which they can be closed. Vertical openings are of course bad, for they not only create draughts but allow fire and water to spread from one floor to another. The best possible arrangement is to have elevators, stairs, etc., enclosed in fire proof towers with fire doors at openings each floor. Skylights should be constructed of metal frames with wired glass except over the elevators, which should have plain glass covered with a wire netting. This is to allow the glass to be broken and permit the escape of smoke. Partitions and interior finish should be noted, for if of wood they only add to the inflammable material at hand when a fire starts. Lastly the size, area and date of erection is noted.

The "OCCUPANCY" is nothing more than an inventory by floors of the contents of each building, and no reference is made to the condition or construction of the articles or machinery found, or to the fire appliances, as there are separate headings further on in the report for this purpose.

The matter of "EXPOSURES" is one of the most difficult to deal with, for it is very hard to say what is an exposure and what is not. The direction and strength of the wind have a great deal to do with it. A building a block away might be an exposure under some conditions, when at the same time one twenty feet away might not expose it a bit. In order to settle this question we arbitrarily decided on one hundred feet as the most remote building which we would consider an exposure. The severity of the exposure must be left to the inspector. He may get it right and he may not, but he will probably get it as near as possible. Human nature must creep into anything made by man, and this is one of the places where it shows in a Standard Report.

The "CRUDE PETROLEUM PLANT," strictly speaking, is neither a "Common" nor a "Special Hazard," that is to say, sometimes it is one and at other times the other, therefore we put it under a heading of its own. The principal features to note are the material of the tank, its location as regards distance from buildings and depth below the lowest line of burners, its cut-offs, vent pipes, and the manner of getting the oil to the burners. It should be so installed that oil must be carried from tank to burners by means of a suction pump located above the tank, and the pipes should be arranged so that if pump is stopped the oil will flow back into the tank. Another reason why it is put below the level of the building is to prevent the oil from flowing into the building in case the pipe breaks. When oil is used for developing power it is a "Common Hazard," but when used in any manufacturing process such as fuel for ovens, it is a "Special Hazard."

A very clear point can be drawn between "COMMON" and "SPECIAL HAZARDS." A "Common Hazard" is one that is found in every class of risk, and a "Special Hazard" is one which is only found in certain classes of risks. There are only four "Common Hazards" according to the above definition, namely, "Power," "Heating," "Lighting," and "Lubricating Oils." If steam is used

for power we mention the horse power of the boilers, their setting, to show their protection from inflammable material, and the distance to this material, for the heat from a boiler, if that boiler be in contact with wood or something of a like nature, will carbonate it and eventually set it on fire. For the same reason the clearance of the stacks is important. As coal and oil are the only two things which can be economically burned in every class of risk it follows that if anything else is burned it must be described under "Special Hazards." An example of this is sawdust, which is generally speaking only found in woodworking plants. The shafting must be free from oil and dust, for the former would be fuel for a fire, and the latter ignite if the bearings became overheated. Shafting should all be above floors, for if below, belt holes are necessary and they allow water to flow through to the floors below. This is true even when they are curbed if the amount of water is very large.

No matter what the power is, it must also be explained in detail.

Under "HEATING," means of producing the heat must be mentioned and described. This is treated very much the same as boilers. Contact of steam pipes is practically the greatest hazard in connection with heating, unless it be the stacks. Coal and wood stoves, gas stoves, and electric stoves used for heating buildings come under this heading, but not when used in some process, for then they are "Special Hazards."

"LUBRICATING OILS" constitute a very slight hazard; the principal thing is to see that they are stored away from inflammable materials, and if in any considerable quantities should be outside of the buildings, for if there is a fire we do not want something around that will burn readily. When in the buildings themselves, lubricating oils should be kept in metal cabinet oilers.

"SPECIAL HAZARD" heading is the most extensive of them all. Every class of risk has some hazards which are common, in only one or so classes. Only experience will teach the inspector to recognize or look for these "Special Hazards," as so many of them seem unimportant to the inexperienced.

In most cities, or I might say localities, there is a predominance of one or two classes, with several miscellaneous classes mixed in. For instance: Throughout New England we find more cotton and woolen mills, boot and shoe factories and paper mills, than anything else. New York and Pennsylvania are full of woolen mills, and there are several silk mills in the latter. The South manufactures practically nothing but cotton goods. The Pacific Coast is not a manufacturing section, but still we find a predominance of one or two classes, such as woodworking plants and canneries.

I will explain the "Special Hazards" involved in making cotton yarns from raw cotton. This is a class of risk with which you are not very familiar, and so it will be more interesting, and will serve as well as anything to show how we treat the subject of "Special Hazards."

Practically all fires in cotton mills are caused by some foreign material getting into the cotton, and owing to the high speed of machinery used, striking a spark and setting fire to the cotton. You cannot prevent the careless farmer from getting old buckles, nails,

etc., into the cotton when it is being baled, but you can construct your machinery to throw out a great deal of this, and also in some cases prevent it from striking a spark when it does get in.

Another cause of fires is the dropping of matches out of employees' pockets, which later are stepped on or run over by trucks. The remedy for this is to use only safety matches.

No matter how hard you try to prevent it, fires are going to start in any material as combustible as cotton. All you can do is to be ready to extinguish a fire the minute it is started.

The secret of keeping down losses by fire in cotton mills is the automatic sprinkler system, which gives us a fire extinguishing agent at all possible points of origin of fire. If you fail to catch a cotton mill fire at once you find it very difficult to extinguish it at all.

The cotton is brought to the mill in bales weighing about 500 pounds each, and stored in a warehouse 50 x 100 feet, and seven feet high, with brick side walls and frame fronts. As these warehouses generally consist of two or more sections the brick walls are to separate the sections and prevent the spread of fire. The fronts are frame in order that they may be broken open and the cotton removed, for the only way to extinguish a fire in a bale of cotton is to get that bale outside, break it open, and throw water on it as it blazes up.

A building of the above dimensions was arbitrarily decided upon as the maximum area between fire walls. The height was made seven feet in order that no more than one bale could be set on end. This is to avoid tiering of cotton, which is very objectionable, as the top layer acts as a roof and prevents the water from the sprinklers reaching the fire underneath, and allows the latter to spread.

It probably seems strange that so much precaution is taken against fire in what might be termed an isolated warehouse containing no machinery. Cotton is often brought into the warehouse with a fire smouldering inside, which after a time breaks out. The sparks get into the cotton while it is being baled; they fly from the unprotected stack of the country ginery and are baled up with the cotton.

The gin is the machine which removes the seed from the cotton, and is generally located near where the cotton grows. The further the mill is removed from the ginery, the less liability there is of a fire of this nature, for the time taken up in transportation allows the fire to break out.

Another cause of fires in warehouses is due to matches baled up in the cotton and being bitten by rats seeking nest material.

The third cause is the dropping of matches from employees' pockets, which are afterwards stepped on, or run over by trucks. This latter could be prevented by using nothing but safety matches,

The bale is next taken into the opening room, which adjoins one of the warehouses, and the metal ties binding it together are cut with an appliance made for this purpose, and not with an axe, which might strike a spark.

There are two methods of breaking cotton. One is to do it by hand, the other by machinery. The only hazard in the former is

the constant danger of matches. As the bale breaking machinery runs at a fairly low rate of speed there is not very much danger of foreign materials striking sparks. This machine breaks up the cotton and puts it in a more or less fluffy condition. A galvanized iron tube with a fan in it causing suction conveys this cotton to the picker house. This tube runs up for about twelve feet rather than down, so that any loose foreign material will drop out of its own weight, rather than be carried to the mill. The fan should have bronze blades, as they are not liable to cause a spark.

In small mills, and other large unapproved ones, the cotton is opened in the picker room and allowed to accumulate in large quantities on the floor. An accumulation of a large amount of loose cotton anywhere in the risk should be avoided, for it catches on fire readily and spreads rapidly, and makes a large blaze which is not only difficult to extinguish but opens an unnecessarily large number of sprinkler heads.

The picker house should be detached from all other buildings, as ninety per cent of the fires in cotton mills originate in the pickers. If not a separate building there should be a fire wall between it and the main mill, and this wall should contain no openings.

The picker house contains machines in sets of three called the "breaker," "intermediate," and "finisher" pickers. These machines are steel and are provided with arms revolving at about 1500 revolutions per minute, which beat the cotton into a fluffy state and force it out through a slit in the form of a sheet. As it emerges it is wound on a steel rod and is known as a lap. The dust, stones, buckles and other foreign material drop through a grid and are blown through a galvanized iron tube to the basement of the picker house. This dust room has solid walls, practically no exterior openings or communications, and no wiring. The cotton is conveyed from one of these pickers to another by means of a closed conveyor known as a cleaner. Automatic sprinklers are placed everywhere in these conveyors as well as in the room and basement. One more hazard of the picker house is the waste picker. This is a machine for tearing up old cloth, waste, etc., and preparatory to being made into new cloth. It discharges into a small metal lined room provided with auto sprinklers.

The cotton after leaving the picker house is taken to the cards. Here it is carried between revolving drums which are covered with a mass of wire bristles about ⅛ inch long. This drum straightens out the cotton fibres and makes them all lie parallel to each other.

From the card it is gathered off in the form of a large thread about two inches in diameter, which can be broken by the slightest pressure. Several of these threads are run through an eyelet, and at the same time twisted so as to make another thread of about the same size, but with more body. This process is called "Drawing."

From here it is run through three sets of machines called "Slubbers," "Speeders," and "Spinners," each one making this thread stronger and smaller, until when it comes out in the last it has been spun into a thread, and is called yarn.

The only danger of fire from the carding is the presence of foreign material getting between the rollers, or the overheating of the bearings. From now on the only cause of fire in any of the machinery is due to the overheating of the bearings, or the striking of sparks by improper adjustment or breaking of the machinery. This latter cause is very rarely encountered.

When the cotton is to be dyed it is either done immediately after going through the breaker, or after the yarn is made. There is little or no hazard to the latter except the steam pipes, but a great many fires start in the former owing to the fluffy condition the cotton is in when it is being dyed. It passes through a long frame dry room on an apron. The interior of this dryer is provided with auto sprinklers. The bearings should be oiled from the outside and by means of oil cups. The dryer should be kept very clean.

Now the special hazards are, the manner of storing cotton, the manner of opening bales, the location of the opener room, the manner of transporting cotton to the picker house, the amount of cotton accumulated on the floors in the latter, the conveyors, fans, etc., the waste picker, the cleanliness of the machinery, the location of the picker house, the oiling of the bearings, the condition of the dryer, and the disposition and separation of the different grades of waste, this latter being very important. Each one of these things is taken up and described in turn. Its installation and condition is told regardless of whether it is done properly or improperly.

Under "PROTECTION" we merely list in a regular form what we find and explain its condition, etc., careful attention being paid in the inspection to see that all valves are open, all sprinkler lines intact, all supplies in good condition, and if tanks to see that they are full. Watch carefully for sprinkler obstructions, irregular pipe sizes and other infractions of the rules.

The "ADMINISTRATION" is one of the most important headings of the report. Here you get the inspector's opinion of the manager.

A great deal depends on this feature, for even if a man is manager of a perfect risk as far as construction, machinery and fire protection is concerned, he may through his neglect or incompetency jeopardize the value of it. On the other hand an excellent manager can make a good risk out of what might be called a poor one.

Under "RECORD OF FIRES" we are careful to get every one that has occurred. We ascertain if it was under the present assured or management, its cause, how extinguished and amount of damage, etc.

The subject of "RECOMMENDATIONS" is a large one. It embraces a large amount of work, not half of which shows on the report. It is easy enough to make recommendations, but quite another matter to get them abated. You have got to make them in such a manner that the assured will not think you are imposing on them. In other words an inspector must leave a risk, after asking the assured to spend maybe a thousand dollars and be able to return at any future date without fighting his way in. Most intelligent

men will listen to reason and when you can show them where any of your recommendations will work to their advantage they will, if financially able, co-operate with you. On the other hand, we find incompetent managers, who, to shield their own neglect of the risk, will obstruct you and maintain that you do not understand your business. This is the sort of man that you feel like hitting, but it does no good, for you only make an enemy and do not get your recommendations carried out. One of the most difficult kind of a manager to get satisfaction out of is the manager of a factory which is one of a long chain of like factories owned by one corporation. Each manager is attempting to make a better showing than the other. He will save money by not improving his risk, and trust to luck that he does not have a fire. He will make all sorts of promises but will do nothing.

These reports are all worded as much alike as possible. In order to accomplish this, using as many inspectors as we do, and they located in different cities, we compiled scratch blanks covering everything from the title through the summary and prominent features, the crude petroleum plant, common hazards, administration and protection, including sprinkler report. All that is left for the inspector to do is cross out a word here and there and fill in a few blank spaces and write the few portions on which it is impossible to compose a blank, such as construction, occupancy and special hazards.

The next time we issue a report we call it a Re-inspection and it consists of a single sheet, giving the number, re-inspection letter, date, inspector's name, title, class of risk, location, San-Born map, per cent subject to one fire, changes, administration, condition of fire appliances, note of any fires which have occurred since last inspection, recommendation and a short summary. In other words, we give nothing but the changes which have taken place since the last inspection and the condition of the risk at the time this report is issued.

Every three years or so, as changes demand it, we will issue a new original report called a re-original. This will be a signal to destroy everything that has gone before it and start anew. We will follow this re-original with two or three more re-inspections and then repeat the operation. But through all of this the risk will always retain the same number.

The standard form of inspection report is simple, concise, right to the point, but complete.

SPRINKLER EQUIPMENTS AND SPRINKLERED RISKS FROM AN UNDERWRITING STANDPOINT

By ARTHUR M. BROWN
Of Edward Brown & Sons.

(Note—It is with extreme regret that this Annual goes to press without the text of this valuable lecture. Its preparation occurred during a busy season and was interrupted by a trip which took its author out of the city for some time, but the results nevertheless showed the most careful and painstaking study. Mr. Brown spoke extemporaneously from copious notes, and added to the interest of his remarks by exhibiting specimens of several well known sprinkler heads. He explained their mechanism, drawing attention to the especially praiseworthy points in each and their adaptability to certain hazards. The protection of the equipment against mechanical hazards in wood-workers and chemical hazards in sugar factories and flour mills was emphasized, and in conclusion the speaker offered as a prophecy that rates on sprinklered risks which we now think low will be large in comparison with those on similar risks a few years hence.)

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Tuesday
11 *April*, 1911

At the Society's Quarters
418 *Montgomery Street*

THE CALIFORNIA STANDARD POLICY

By LESTER H. JACOBS, Attorney

(Note—The lecturer on this occasion, a well-known attorney, was particularly well qualified to speak upon the subject chosen, having actively participated in the preparation of the preliminary forms which were subsequently adopted by the State as its Standard Policy. Mr. Jacobs' remarks were entirely extemporaneous, hence no record is available for reproduction here, but it may be remarked that the policy was read line by line, and the intent of each phrase and clause fully explained. One of the most interesting features of this lecture was a comparison of the California and the New York Standard Forms, especial note being made of the slight differences in the wording of the several clauses and the reason for them. This lecture was authoritative and highly valuable from an educational standpoint.)

THE KINNE CUP

Ever since its inception The Fire Insurance Society of San Francisco has numbered among its friends as a most helpful supporter Colonel C. Mason Kinne. Recognizing the value of training and education, and desiring to encourage a healthy spirit of competition among the young men in whom he took so kindly an interest, Colonel Kinne was inspired to offer a silver cup to be awarded to the member of the Society who should submit the best original paper upon any subject connected with the Fire Insurance business. The rules of the contest required that the papers be submitted unsigned, thus insuring an unprejudiced award. The Judges named were

R. W. OSBORN,
F. J. DEVLIN,
HERBERT FOLGER,
H. L. A. BATES, and
F. B. KELLAM,

to all of whom the Society tenders its thanks for their interest and criticism.

Upon the closing date, a satisfactory number of papers having been submitted, the consideration of their merits was commenced, and the awards were announced at the meeting held on Tuesday, 8th August, 1911, when the three winning papers were read before the Society. These were:

"The Endorsement:—A paper for the Junior Office Man,"
By G. A. YOCUM,
to whom was awarded the Kinne Cup;

"The Moral Hazard,"
By P. S. W. RAMSDEN,
to whom was awarded First Honorable Mention; and

"An Ordinary Half-Hour at the Endorsement Desk, and an Aside or Two on Office Correspondence."
By F. J. PECK,
to whom was awarded Second Honorable Mention.

The full text of these three papers follows.

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THE ENDORSEMENT

A PAPER FOR THE JUNIOR OFFICE MAN

By G. A. YOCUM

It is after half-past five, at the end of a busy day. Most of the force in the big office have long since left their desks and started homeward, leaving only our young friend, Mr. Junior Clerk, who, perched upon his stool, is busily engaged in writing sweet nothings to that Girl he left behind in Visalia when he came to the City.

Suddenly the front door swings open and in rushes Mr. Cleve R. Duck, Clerk and outside man for Mr. S. Lippery Broker. He dashes to the counter and calls breathlessly: "Sign this; I'm in a hurry."

Our friend descends rather proudly from his stool—for is he not "in charge of the office"?—strolls over and casually inspects the neatly headed list before him. It looks harmless; he has seen the endorsement clerk sign many that looked like this one, and he is assured that it is "only temporary, pending regular endorsement." Not realizing in the slightest degree that an extended shut-down permit on a manufacturing plant could affect its fire hazard, he hesitates a moment, wishes the counterman were there, and finally affixes his signature.

Two months later, no "regular endorsement" having been made (Mr. Broker calls that "unnecessary labor"), the plant burns, and, as Kipling puts it:

"There's trouble in the wind, my boys,
There's trouble in the wind."

As we understand the term in our branch of the insurance business, an endorsement is any change in or addition to the original contract. Its name implies an entry on the back of the policy, but its multiplicity of uses (and misuses) have long since carried it past such a limitation. An endorsement may be of one word, or of a thousand; it may have practically no effect, or may alter the entire contract; it may make a policy which at its inception was an entirely satisfactory piece of business wholly undesirable, and vice versa; in a word, it may lead your company out of trouble as well as into it.

It is mainly because it is so little understood that the endorsement has come to be regarded by the young office man as the bugbear of the business.

In a general way, endorsements may be divided into six classes:

1. Those affecting ownership or title.
2. Those affecting the payee.
3. Those affecting amount, rate and premium.
4. Those permitting removal of the property insured.
5. Changes in form.
6. Special clauses and permits.

Oftentimes one endorsement may come under two or more of these classifications, but it is simpler and perhaps wiser to treat each division separately.

I.

Endorsement Affecting Ownership of Title.

(a) It must first be understood that the insurer has no right to dispose of, waive or entangle the rights of the owner of the policy —the assured. If he sells the property covered, he still owns the policy, and if it is to be conveyed to the new owner of the property he must assign it. All policy blanks have forms on their backs (here the transaction is an "endorsement" in the true sense of the word) provided for this purpose. The original owner merely states that he conveys his interest in the policy to the buyer, signs his statement, the authorized representative of the insurer assents in writing and the transaction is complete.

(b) A policy covering upon realty should be written in the name of the owner of record, in the public records of the county in which the insured property is located. If the owner should die, the company may recognize his legal heirs as the assured, but such a course is manifestly dangerous, as recent cases in our courts show that new heirs may crop up overnight. An order of the court, if the assured left a will, or the recognition of his family according to the State law if he died intestate, are the common grounds for clearing title to a policy under such conditions.

(c) Suppose, after disposing of his property, the assured should leave the neighborhood without assigning his policy to the new owner. A reasonable method has been devised whereby the new owner of the property may be recognized as the assured under the policy without placing the company in the position of having two assureds to pay in case of loss.

Common law prohibits any man from insuring property not his own, for his own account. Therefore, if the new owner of the property is recognized as the assured under the policy, with the understanding that the sale transaction has been legally consummated and duly recorded in the public records of the county wherein the property is located, the insurer would seem to be well safeguarded. If the property has been legally conveyed, the policy is assigned; if it has not, the policy remains unchanged. The decision of the court as to ownership would decide the legal claim for the insurance, and in case of a loss meanwhile, the money may legally be paid to the court for distribution according to its subsequent settlement of the estate.

(d) The assignment of a policy to a receiver, trustee or similar officer should be the subject of the closest scrutiny and most painstaking inquiry. Unsuccessful business and manufacturing projects commonly pass through a receiver's hands on their path to the final fire, and the insurance company is depended upon to dig out the money already sunk in the venture. Even when a moral hazard is beyond the possibilities of the case, a "careless hazard" may develop with just as disastrous a result.

II.

Endorsements Affecting the Payee.

(a) When property insured is mortgaged or its owner has otherwise pledged it as security to another party who requires insurance protection, loss if any under the policy may be made payable to him. The policy is not assignable like a negotiable paper as collateral. The ordinary form merely states: "Loss if any payable to—," but not uncommonly the words, "as his interest may appear," are appended. These should be avoided, as in event of a fire it devolves upon the insurer to prove the nature of the interest of the payee as well as its extent—a troublesome and sometimes expensive proceeding. Along the same lines, the words, "to the extent of his claim," following the name of the payee, should be carefully avoided. Suppose his claim proved to be several times as much as the amount of insurance carried? Such a clause should be qualified by adding, "not exceeding the amount of this policy." An insurance policy should be so carefully written that, satisfactory proofs of loss having been approved, there can be but one party to whom loss may be payable. What subsequently becomes of the money is a matter of no interest to the insurance company.

(b) Property encumbered by chattel mortgage is usually undesirable insurance, particularly when the subject of insurance consists of household goods. When a man is so financially embarrassed that he is forced to raise funds on his personal effects, he not uncommonly sees a way to clear his debts by having an "accidental" fire. Hence very careful inquiries should be made as to value, encumbrance and amount of insurance carried, before assenting to a "loss payable" on chattels. For the protection of the office man, and as a matter of office record, the figures given should be carefully preserved; they would probably prove most valuable in case of fire. It is for this reason mainly that when loss under a policy covering upon a dwelling and its contents is to be made payable to a third party the clause is made to read: "Loss if any on building only." Usually no objection is made where the endorsement is designed to protect a former owner for the unpaid balance of purchase price.

Careful scrutiny should be insisted upon, however, in cases where it is desired to make loss under policies covering merchandise stocks payable to third parties. A certain amount of surplus is necessary to "swing" a mercantile establishment successfully, and if it is necessary to raise money on the stock, it indicates that such a surplus is lacking. Occasionally a fire is a desirable incident, if there be plenty of insurance.

(c) It is sometimes desired to protect the interests of several separate mortgagees under the same policy. The first mortgagee has the prior right; the others follow in order. The endorsement should be so worded that loss if any shall be payable, first, to John Doe, first mortgagee, balance if any to Richard Roe, second mortgagee, balance if any to ———, and so on indefinitely, following the same formula. This is to avoid being called upon to pay more than the face of the policy to satisfy the aggregate claims of the various payees. Property encumbered by several mortgages, however, should be avoided.

(d) When the owner of the subject of the insurance has cleared it of encumbrance, he naturally desires loss if any payable to himself, but inasmuch as no party other than the payee has the right to release the "loss payable" claim, his signature should be secured to a waiver as follows: "I hereby waive all interest in and claim against this policy."

In the absence of the payee named, or the impossibility of securing his signature to such a waiver, the endorsement usually takes such a form as this: "The interest of Wm. Blank, the party herein named as payee, having ceased, loss, if any, under this policy is hereby made payable" to the assured, or any other party at interest desired. It will thus be noted that if the interest of the original payee has not ceased, loss is still payable to him. The new payee should be made the beneficiary only subject to the cessation of the rights of the former party named.

(e) The mortgage clause is a mutual agreement between the insurer and the payee whereby the latter guarantees payment of the premium in case the owner fails so to do, in consideration of which the insurer grants extensions of time after notice of cancellation and releases the mortgagee from liability for most of the sins, both of omission and commission, of which he may be guilty. Care should be exercised that such agreements contain the "contribution clause," which provides that in case of loss all other insurance on the property, whether in favor of its owner, this payee or any other parties having an insurable interest, shall contribute toward its payment.

III.

Endorsements Affecting Amount, Rate and Premium.

(a) The most common of these are, regrettably, reductions in rate. These are figured on a pro rata basis, and should always be most carefully reviewed. The date the new rate became effective is one important point, as upon it depends the correct figuring of the return allowable. Care should also be used to avoid approving a rate reduced to a point inadequate to cover the hazard involved.

(b) In case the face of a policy is increased, the additional premium must be figured at short rate. In reality, the additional amount is as much short-term insurance as if it had been written under a separate policy, and the ordinary short-term rule applies. An increase in amount, however, is to be avoided on account of the resulting complications in the books.

Partial cancellations are figured under the same rules and upon the same basis as full cancellations, the examiner's main care being the proper adjustment of his net line.

IV.

Endorsements Permitting Removal of Property.

One of the most important forms of this most interesting class of transactions is the transfer. We all know how produce is "transferred" from its source, say, to tidewater, and then back to some other source of original supply—quite as bad as coals to Newcastle. This is a distinct imposition upon the rights of the insurer, as it

deprives it of the short rate when the original subject of insurance is disposed of and shipped out.

(a) For these reasons, each transfer should stipulate that, the property insured having been removed, the insurance ceases in original location and applies only thereafter in the new. The new building containing the property must be fully described, both as to construction and location. Transfer forms should also name the date effective, old and new rates, and additional or return premium, the term and date of expiration. All these items of information "help" with our Boards, make more complete transactions, and result in a less number of "tags."

(b) Occasionally it is desired to cover property in the original location and in the new, proportionately as the goods are moved from one to the other. Even if the policy contains a co-insurance or reduced rate average clause, the ordinary average clause should be insisted upon. The latter merely distributes the insurance in the same proportion as the values, regardless of other conditions. The difficulty with such an endorsement is the impossibility of an equitable adjustment of the additional or return premium. Until all the goods are finally settled in their new home, the average clause applies, and we are required to charge the highest rate. Such an endorsement should, therefore, under no circumstances allow a return premium, but should be followed by a permanent transfer after the model of the first one described under this heading. In event of a higher rate in the new location, the pro rata additional premium should be charged when the "average clause" endorsement is applied.

(c) Additional and return premiums for transfers are usually calculated pro rata, but certain cases, named in Rule No. 8 of the Tariff, very reasonably require the application of the short rate.

V.

Changes of Form.

Under this heading come most of the "jokers," for agents and brokers are alive to the fact that while most offices employ competent and well-paid men for the original examination of their business, the endorsements are too often turned over to mere beginners, unversed in the science of underwriting and unable to detect objectionable features if they exist. Hence the "change of form." Sometimes it is but a few words; often an entire remodeling; occasionally prohibitive features creep in, and not seldom ridiculous ones.

First, the examiner should ascertain whether the new form is a redistribution, and whether under the new conditions the net retention subject to one fire has thereby become excessive. Next he should read the form carefully and critically—read all of it. Too often a familiar phrase at the beginning of a clause leads to snap judgment and results in careless work.

Then he should see that none of the clauses safeguarding the company's interests which were present in the original form are omitted from the new one. This is one of the easiest loopholes for the unscrupulous agent, and its use is almost universal. Having satisfied himself that all the conditions are right, he may then pass it along for such book entries as are necessary.

VI.

Special Clauses and Permits.

These are so numerous and so varied that a specific treatment is manifestly impossible. The average clause—a valuable friend in need, even if it does complicate lines—is being neglected for the reduced rate average clause, probably because of their similarity in names. The latter, as a little careful figuring will show, does not always accomplish the desired proportionate distribution.

Beware of any "temporary" permit; some people go abroad "temporarily" and stay a year; it is indefinite; make your special permits for limited terms, beginning and ending on specified dates. Even if you have to renew them, this is wise, for your attention is attracted to the unusual features, and while the permit might be allowable for 90 days, the next 30 might be the back-breaking straw for the camel.

How many times have you been asked to waive the sprinkler warranty "for a few days"? But who ever heard of an additional premium being either offered, asked, or paid for such a waiver? If a sprinklered risk should burn during the term of such a permit, the class would be unjustly penalized, and the insurer deprived of the additional premium to which it is entitled for assuming the increased hazard by reason of the withdrawal of the very protection which made the original low rate obtained possible. The approval of such permits should be discouraged. Limited terms tend to hurry the necessary repairs, but an additional premium charged would rush them, so that the original rate could be restored at the earliest date.

The words "due diligence" have crept into a good many warranties upon the part of the assured during late years. The owner agrees to use "due diligence" to keep his sprinkler equipment in shape, or a watchman about the place; he gives his orders to his foreman, and there, presumably, his liability to his insurance companies ceases. Nobody ever neglects to carry out the orders of the "boss"; if he does, he gets "fired"—and the insurance corporations pay for the loss.

The uninitiated often figure that an idle factory, with its furnaces dead and nobody about, is a better fire risk than when it is in operation. But the figures—notorious for their truthfulness—tell us otherwise. Much care should be used before approving shutdown permits. Inquire why, and find out why. See that the permit is for a limited term, that the dates are named, and that the whole concession is granted subject to full compliance with the watchman clause. When an extension is asked for, ask more questions; they may develop an excellent reason for a prompt cancellation.

Generally speaking, the endorsement clerk in an office should be a good practical underwriter. He should know the underlying principles, the whys, not only the don'ts. He should know the line-sheet by heart, and should work hand in hand with the examiner. In fact, whenever it is possible, it is advisable that the man who originally approves the daily report should see and approve every endorsement subsequently applied. By this means only can consistent underwriting be applied, and the best results obtained.

Endorsements should be clear and concise, straight to the point, unmistakable in meaning. Dates should be insisted upon for each transaction, and steps taken to insure the authenticity of signatures; and never—oh! never—pass any endorsement without the full record of the policy before you.

Again it is 5:30 in the evening; again young Mr. Junior Clerk is alone at his desk inscribing sugary bubbles to his Visalia inamorata; again Mr. Broker's clerk rushes in with his, "Sign this. I'm in a hurry." "No more shut downs for mine," thinks our hero as he lines up to the counter. This one looks different—it's a permit to operate—easy!

Next week when the loss claim is made he learns that he had assumed a prohibited hazard for the company! Oh! well, he wanted to go back to Visalia, anyway! But he has learned, as has many another, that when it's ENDORSEMENTS,

"There's trouble in the wind."

FIRE UNDERWRITERS' ASSOCIATION
OF THE PACIFIC
939 MERCHANTS EXCHANGE BUILDING

THE MORAL HAZARD

By P. S. W. RAMSDEN

The moral hazard, as met with in the fire insurance business, is one hazard that is, to the layman, hard to understand. The physical hazard of any building can be readily understood, but it is not conceivable that anything of a personal risk is of such vital importance. The physical hazard can in a fairly accurate way be measured; but the moral element, being an unknown quantity, cannot be taken into consideration in making the rate. If this hazard were not considered at all, and all business offered were accepted at a rate based on loss ratios on fires from the physical and moral hazards collectively, the honest man would then be unfairly charged to make up for the unscrupulous insurer.

The moral hazard should properly be put down to the personal feature of the business and may exist whenever any benefit—financial or otherwise—will come to the insured or any other person if the insured property is destroyed. In dealing with the question, I am going to divide the hazard into two classes, which, for lack of better terms, I am going to call "Positive" and "Negative." The former term would apply where there is a desire to destroy the property, and the latter where there is little or no desire or care to preserve it. The "negative" hazard which exists possibly may develop into a positive hazard through financial straits, etc., and this is a risk which should be most carefully watched.

Cases of positive hazard might be found where the insured buys up an old shop-worn stock, or a bankrupt stock sold at a sheriff's sale, and takes a store, fits it up cheaply and does business for "appearance sake" for a few months and then burns up. A case of this kind recently came up in Oakland, where a man was indicted for arson. Through the confession of his confederate, it was ascertained that the insured had for the last few years made a practice of moving from one part of the country to another and had successfully burned out a number of times, realizing without question on all previous losses.

The case of the old residence in Oakland is still in the papers, where the property—dwelling and land—was bought for $12,000, the residence insured for $19,000 and then set fire. If the insurance had been collected, the benefit to the insured would have been great, especially as the land is valued at $10,000.

Another case of a positive hazard was in a dry goods store in a brick building in San Jose a few years ago. There is one obstacle at which even the most unscrupulous man will hesitate, and that is the endangering of lives of others; and he may even think twice before destroying their property; but the insurance companies are different and they are easy prey. When this fire was arranged, the insured was thoughtful enough to have his "Fire Sale" sign painted beforehand, and the "plant" was so arranged that the fire would be

small and endanger no lives. A small heating stove was in the rear of the store and some hot ashes were emptied into a wooden box, which was allowed to set fire to the woodwork around the stove. At the appropriate time the alarm was sent in and in a few minutes the fire was put out by the chemical engine. As soon as the place was safe, instead of complying with the conditions of the policy and doing everything toward preserving the stock, the insured closed all doors and windows, allowing the smoke to settle. He intended not only to obtain a heavy loss payment for smoke damage, none of the stock being destroyed, but also to reap the benefit of the fire sale. A San Francisco adjuster happened to be in town, and noticed the whole proceeding, and when the insured, overstepping the mark by putting up the sign for a fire sale—with the paint dry—within half an hour of the loss, the adjuster took the matter into his own hands and threatened to prosecute for arson. The insured saw that he was caught and made no claim, and as he would have to shoulder the smoke loss himself, found it advisable to open up all doors and windows at once.

I will now endeavor to quote cases of what I designate the negative hazard to distinguish between the desire to destroy and the lack of care to preserve. A large Eastern furniture concern has a warehouse in this city, like others scattered throughout the larger cities of the continent, and it seems to be the policy of the head office to encourage competition among the managers towards keeping down expenses as well as keeping up sales. As in the present instance the managers will do all in their power to lessen expenses, so that insufficient accommodations were provided, the aisles were kept full, stock was piled to the ceiling and the space for setting up furniture was limited to about 6 by 6 feet. The glue pots, heated by a gas flame, were within a few inches of the excelsior. The Fire Marshal and the Board of Underwriters insisted on the conditions being changed, against the protest of the manager, who found it cheaper to pay the penalty of an increased rate to paying for rent for extra warehouse room. Indeed, the conditions were so bad that the Fire Marshal stated he would not allow his men in the building in the event of a fire. A loss from a risk of this kind would be attributed to bad physical condition, but I believe that on account of the carelessness and the lax methods of the insured the hazard is really a moral one. The property was heavily insured, and the manager knew that nothing beyond the loss of business would result for a few weeks, it being possible to stock a new warehouse from the factories in a short time. He was willing to take a chance to save expenses.

Not long ago a company composed of prominent business men of San Francisco bought up a large tract of land in the Santa Cruz Mountains which had been logged off by a lumber company, the supply of timber being exhausted. The three mills were also bought up, or may have been given in with the purchase price, but the insurance—which was about 50 per cent of the original cost of the mills—was continued. The machinery in the buildings was of practically no salable value, as, on account of the inaccessible location, it would cost more to remove the machinery and place it on the market in San Francisco than they could obtain for it. When the renewal

came around, the insurance companies looked into the matter carefully and obtained information from the secretary of the company, who was perfectly frank, that decided them to drop the lines. The buildings were abandoned, it being before the time the Board ruled that shut-downs should be limited and watchmen employed, and as brush fires were frequent, the company thought they might be lucky enough to lose one or more mills and collect insurance on something absolutely valueless to them. The abandonment was so complete that there was nothing to prevent campers from using the buildings for shelter, except tearing down a few boards to enter the building. All of the men interested in the company were highly esteemed, and none would even think of burning the mills intentionally, but a moral hazard certainly existed, which I would class as negative.

Manufacturing plants and other risks in times when business is dull, such as the lumber market in the Northwest at the present time, will burn more frequently when shut down than when in operation, and this seems unaccountable, for it would appear that a shut-down woodworker would be a better risk at the rate than one that is operative. Is it not possible that lack of strict attention to the plant, and care and cleanliness that are beyond the duty of the watchman, are responsible for this, and should not this be classed as a moral hazard?

I have endeavored to make my distinctions apparent in the foregoing, but the cases given are extremes. There are many classes of risks which may develop, under conditions, either a positive or negative hazard, and often where the latter exists it will soon become the former.

Take, for instance, dwellings erected on lots or farms sold under contract. The insured may be a wage earner who puts up his home when times are good, but when work drops off he is laid off and is unable to keep up payments. The seller of the lot, under the conditions of the contract, regains possession, and the house is practically valueless, for the amount the insured can obtain by selling the house for removal is very small in proportion to the original outlay, and the price offered by the seller would also be small. The temptation to obtain the insurance would be great.

Experimental factories, unprofitable mining ventures, stores in newly settled sections, manufacturing plants floated by stock-promoting schemes, and various other properties of similar nature, are all subject to a moral hazard of one kind or another.

It is well known that a building erected for one purpose and occupied for another is not desirable business. A building may be built for a brewery which goes out of business and the property is put up for sale at a cheap price. Some other factory starts up in the building, which may do well enough for a year or so, but as business increases the quarters are found inadequate and, on account of construction, or other reasons, the building of additions is not feasible. Would not the insured benefit if the building burned and the insurance money used to rebuild more suitable premises? The insured is not likely to take extra precautions to prevent a fire if it is to his benefit.

The use of the mortgage clause on manufacturing and similar risks is also inadvisable, as the buildings and machinery are usually

valued greatly in excess of the land value, and under the conditions of the clause the mortgagee's interest is not invalidated in event of a questionable loss. The right of subrogation is of little value to the company if only land is left, and this is likely to incur a moral risk.

Mortgaged property should also be carefully watched for a possibility of moral hazard, the chief reason being the failure on the insured's part of meeting obligations, and if the insurance is collected it may prevent foreclosure proceedings; on property in large towns in desirable locations the likelihood of this is small, as sales can be made more readily, but on farms and in newly settled sections and "boom" towns, it is much greater. A farmer might buy land in a new and untried section and raise a mortgage to help erect buildings, and the farm may prove a failure, and the only way he can recover even a part of his investment may be from the insurance. This might apply equally even if the property were not mortgaged. The property being isolated, he could with safety—owing to the lack of witnesses—deliberately set fire to the buildings, inventing the most plausible excuse for the cause of the fire.

Many other instances may cause a bad moral hazard, such as a store building and stock in a location that does not pay; insurance in excess of values may be a temptation, all of which may be traceable to the insured; but there is also the hazard of fire from other parties who will be benefited by the destruction of the premises. Under this category will come slaughter houses, fertilizer works, tanneries, disorderly houses and saloons, all of which may be detrimental to the neighborhood and to which their destruction would be a benefit. Saloons in a section where the community is strongly in favor of "dry town" may lead either the saloon keeper or his enemies to help the destruction of the building. Mills and factories where there are labor troubles are also undesirable for the same reason.

The moral hazard is one which requires more knowledge to gauge than even the physical risk, and an underwriter of years of experience seems to acquire a sixth sense in these matters. Thorough inspections, giving details as to care and cleanliness, management, etc., are valuable to shed light on the possibility of a fire, and commercial reports giving the antecedents, assets, liabilities, prospects and the character and reputation of the insured, as a business man, have also a very important bearing on the moral hazard. To show the importance attached to the financial condition of the insured, one need only state that the insurance companies are by far the largest subscribers to the commercial agencies. It is not merely conjecture to say that a very large proportion of fires are attributable to moral hazard, and the majority of these to the negative class.

Would not the hazard be reduced tremendously if in all risks the care and cleanliness were all that could be desired by the underwriters?

FIRE UNDERWRITERS' ASSOCIATION
OF THE PACIFIC
939 MERCHANTS EXCHANGE

AN ORDINARY HALF-HOUR AT THE ENDORSEMENT DESK, AND AN ASIDE OR TWO ON OFFICE CORRESPONDENCE

By F. J. PECK

When Mr. Sexton read his very interesting and instructive paper on the "Adjustment of Fire Losses" before our Society, he laid special stress on the importance of the work connected with the endorsement desk. He even went so far as to rank that work above the adjuster's in point of far-reaching consequences.

As the result of varied endorsement modifications, the policy contract often succeeds in losing its original identity almost entirely, and as an effect is always traceable to a cause, so a troublesome loss adjustment is often attributable to a lack of alertness on the part of the endorsement clerk in recognizing the "artful dodger" in an otherwise very ordinary looking and apparently harmless amended covering slip.

Of course, in a paper such as this we cannot hope to go into detailed routine, but will have to confine ourselves to several random examples of more or less commonplace, every-day occurrence at the endorsement desk.

As in the case of his correspondence, the endorsement is a plain index to the agent's personality and individual characteristics. One agent will be found to adhere to the adage that "brevity is the soul of wit," and usually go it several better by utterly ignoring the most essential details; another is a firm believer in elaboration and if allowed a free hand, would bury the original contract under a labyrinth of verbiage, the interpretation of which would drive a Philadelphia lawyer to desperation. Few agents thoroughly acquaint themselves with the various forms especially compiled by their respective companies to assist them in issuing a comprehensive, easily recordable endorsement; in fact, few ever take the pains to thoroughly ransack their portfolio of supplies to see just what it contains in the way of printed blanks. And when it comes to figures—additional, earned and return premium calculations and the like—most of them give it up and let the office do the "necessary."

Let me say, at the outset, that I have no desire to disparage, make sport of, or reflect in the least upon the work of the average local agent. If he approximated painstaking detail, he might, on the other hand, not prove a distinguished success as a hustler and business-getter, and what would be the need of an endorsement desk if the "local" knew what to do and how to do it?

The rank and file of the main office clerical staff certainly owe a debt of gratitude to the average agent for his detail-shirking propensities. If his accounts were always straight, and his grasp of the routine work a thoroughly comprehensive one, there might not be found enough young men in our semi-professional calling to warrant the organization of a society such as ours.

Therefore, in humble recognition of the fact that we are all more or less below the "normal," which modern scientists inform us manifests itself in those whom we ignorantly extol as geniuses in this materialistic age, let us stop to examine a few of the riders the average agent succeeds in evolving without having attained to that measure of perfection resulting from a comprehensive grasp of the "dont's" in his instruction booklet, or a thorough overhaul of his supply portfolio and an acquaintance with the "why and the wherefore" of the various printed forms therein contained.

Let us assume that the mail has been distributed, the dailies and applications taken from the files and the O. K.'s disposed of. Now we come to the irregularities, calling for correspondence.

The first thing we encounter is a very innocent-looking mortgage clause form, ostensibly a combined "N. Y., Penna. and N. J. Standard," but in reality one of the variations evolved by building and loan associations and mortgage companies, minus the usual contribution feature. These tinkerings with standard clauses certainly keep an endorsement clerk on the qui vive! The policy number on the slip is quite legible and none of the figures have been transposed, but on referring to the daily report, we find that a previous mortgagee's interest has been recognized and, of course, it will not do to draw the inference that said interest was duly waived on the face of the policy before the attachment thereto of the new clause. Will the agent kindly advise the office definitely whether the former mortgagee's claim was properly waived on the policy, and also state whether there is any other insurance in force on this risk, and if so, whether a similar mortgage clause has been attached to every policy covering the property? In most cases of this kind it will do no harm from an educational standpoint (though perhaps little good) to explain the reason for the company's general objection to a mortgage clause from which the contribution feature has been omitted.

Here's another mortgage clause, but this time it's one of the company's own regular New York Standard forms, properly filled in. Although there is an admonitory heading on the blank, in black-faced type, to the effect that the clause is to be used and applied only to these policies, or such portions of which as cover on buildings, the daily report shows that in this case the clause was attached to a policy on household goods, pointing unmistakably to a chattel mortgage loan, which would, of course, tend to make the insurance more or less undesirable.

We will have to request Mr. Agent to read the heading of our mortgage clause forms a little more carefully, and tell us all about this very evident chattel mortgage encumbrance; why the insured should have been put to the necessity of raising money on his household and personal effects, how much of a loan was secured, what the sound value of the property is estimated to be, and how much insurance is carried thereon. We had also better send him an ordinary loss payable slip for substitution on policy, pending the receipt and approval of his report on the transaction.

Next in line is a typewritten slip, recognizing the removal of property from one location to another. This rider has evidently been dashed off at a record-breaking pace on a typewriter very much in need of type alignment and cleaning. Did you ever notice

how few agents find time to dig out their type occasionally? In this case the assured's name does not agree with the name shown on the daily report; there is nothing said about rate in the new location, which is described according to town plat numbers (of no practical value to the office in determining the location of the risk); no additional or return premium is hinted at, nor does the slip specify that the insurance has ceased to cover in the former location. Also the abbreviation "etc." is freely used in referring to the property covered, viz., "household furniture, etc., etc."

Of course, the discrepancy in the name of the assured points to an heretofore unreported assignment, and we will have to make sure on this score. Then we will have to call for either the map numbers or an accurate diagram of the premises, in order to enable us to arrive at the rate applicable in the new location and figure out any additional or return premium involved under the transfer. We will also have to endeavor to bring the agent to an appreciation of the general desirability of making use of the company's regular transfer forms, especially provided to meet cases of this kind, which call for all necessary particulars, and plainly specify that the insurance has ceased in the old location; and last, but not least, we must impress upon Mr. Local the fact that the use of the abbreviation "etc." in the written portion of any policy, or in any endorsement referring to property covered, is not "good form," being altogether too indefinite in its application and admitting of entirely too broad an interpretation in case of a loss. All this has to be done in such a way as not to confuse the agent, or induce discouragement, and most likely several letters praying for attention and action, or touching upon one or two overlooked points, will have to be written before the endorsement is brought into proper shape. Here comes a cry of distress, advising the company of a certain insured's decease and wanting to know "how to fix it," because the title to the property covered now stands in the name of another party. Peace be unto thee, friend; thy Macedonian cry shall have due heed and a properly worded endorsement shall be sent to thee for attachment to the policy.

Next is an amended printed schedule form, the work of a brokerage firm, on which the customary heading reading, "This policy is hereby changed to read and cover as follows and ceases to cover as originally written," is conspicuous by its absence. Will the agent kindly supply this omission?

The next is a policy accompanied by a Horace Greeley scrawl, evidently the product of a disturbed condition of thought. We will quote it word for word:

"The insured under the enclosed policy has borrowed some money on the property insured and wants to make the policy payable, in case of loss, to the lender.

"I don't see any place to endorse it that way, except in case of a sale. Will you please arrange it and return to me, and I will have her sign the transfer, and oblige?"

We certainly will, Mr. Local, and you will be agreeably surprised to find that the proper way to meet a contingency of this kind is as easy as rolling off a log.

As a contrast to the above agent's helplessness, we have the resourcefulness of another local who has attached a loss payable slip to a policy, recognizing the mortgagee interest of a bank, and, assuming that the insured has lost his identity completely by the transaction, has persuaded him to sign a regulation waiver, inscribed across the face of the policy. Perhaps this insured was hard put to raise the loan, or else affixed his signature to the waiver as a matter of red tape connected with the execution of the mortgage, and he will most likely be surprised to learn that the transaction has not changed his status as the insured under the contract, despite the bank's loss payable interest.

Coincidental with this last problem in insurable interest, we find the next endorsement to be the assignment of the stock item of a policy covering building and stock, which in effect creates two completely separate interests under one policy. This case calls for an explanation of the general undesirability of such a condition of affairs and rather detailed instructions with regard to the modus operandi of effecting a pro rata cancellation and re-issue under two new policies, covering the respective interests. Of course, the new policies may be written for the unexpired term of the original policy at such pro rata premiums as will counterbalance the amount of return premium allowable under cancellation. In this way no monetary consideration is involved under the entire transaction.

As long as the subject of "insurable interest" has been mentioned, it might be apropos to ask, in passing, whether it would not prove an excellent idea to standardize the method of procedure in the very common case where the interests involved are those of vendor and vendee under a contract for a deed. Such action would surely prove helpful to the agent who now has to keep track of the variant views and instructions of his companies in this respect.

Where property is sold under contract for a deed, the vendor's interest is practically akin to that of a mortgagee's, and therefore it would seem that the most logical form would be to issue or assign the policy to the vendee, making the loss, if any, payable to the vendor, as his interest may appear, under a properly worded clause, taking due note of the execution of the contract for a deed.

Now we come to two assignment reports, bearing the same policy number; one advising that the interest of the original insured, Mr. A, has been transferred to Mr. B, and the other taking note of the fact that the interest of Mr. B in the policy has been assigned back to Mr. A as mortgagee.

Evidently this agent intended to report the assignment of the policy from A (the original insured) to B, and then have the loss, if any, made payable to A as mortgagee, as his interest may appear, and the substitution of a mortgage clause form in favor of A, the former owner of the property, would seem to be in order.

Next in line is an unobserving local who has not familiarized himself with the make-up of a policy form, and who has laboriously evolved a rider recognizing the fact that the policy is cancelled, when all that was necessary was for him to have secured the insured's signature to the form specially provided in the inner page of the contract itself.

Here we have a refreshingly neat appearing inquiry, evidently the work of a conscientious man. Will the company kindly advise whether, if a family left their residence for several weeks on a vacation trip, the case could be construed as an actual house vacancy? It appears to the agent that the ordinary vacancy permit would hardly cover this contingency, inasmuch as all the furniture is still contained in the dwelling.

You are one of the thinking few, Mr. Local, for under the circumstances recited the building could not very well be construed as vacant under a strict application of the term, but rather as unoccupied, and the usual permit embodied in the company's dwelling-house forms, allowing for the vacancy of premises during change of tenants, would hardly extend in its application to cover such a temporary non-occupancy of the house. Needless to add, it is a very simple matter to send the agent a properly worded form of permit for unoccupancy in a case of this kind.

The next to greet us is the report of an assignment, showing that the risk has gone into the hands of a receiver, but nary a word of explanation on the part of Mr. Local. Will he kindly condescend to acquaint the company with the circumstances leading up to and connected with the assignment? Does he know anything with regard to the character of the receiver, and can he learn anything relative to the probable future of the risk,—whether the business is to be continued, or closed out at public or private sale, and if there is any possibility of a moral hazard having been engendered?

Now comes a typewritten slip purporting to be a cancellation notice. In this case the agent evidently has a legal bent, for he has taken advantage of the opportunity to run in quite a formidable array of "saids" and "aforesaids," but, unfortunately, lost sight of the most salient point, viz., the fact that the insured is legally entitled to five days' time after the date on which the notice of the company's intention to cancel should reach him in the ordinary course.

A little diplomacy in handling a case of this kind is just so much bread thrown upon the waters. The agent's evident efforts at elaborate formality should not be brutally ignored. A veiled compliment that his notice wasn't half bad as far as it went, and a hint that the oversight of the five-day feature was very evidently an inadvertence on his part will tend to restore his equanimity and make him all the more willing to comply with the company's requirements. Of course, the proper thing to do is to send the agent one of the regular five-day notices of the company's intention to be relieved of its liability, partly filled in, and impress upon him the necessity of completing same in such a manner that the dates to be inserted will give the insured the benefit of the full five days' notice to which he is legally entitled after the form reaches him in the ordinary course, whether by personal service or registered mail. If the latter is resorted to, the company is also desirous of securing the postoffice registry receipt and the little red acknowledgment card bearing the insured's signature, when same is returned to agent.

And so we might go on "ad infinitum," had we not taken the precaution to specify a time limit in our subject, and, having promised to say a word or two with regard to "insurance correspond-

ence," we will bring our visit to the endorsement desk to a close at this point and, in conclusion, indulge in a few remarks with reference to the latent, educating, interest-arousing and actual business-getting possibilities of the ordinary office letter.

The transition in our subject-matter is not at all radical, as correspondence with agencies constitutes an important part of the endorsement clerk's work; and while more or less routine and detail are taken up, at the same time the tone of such correspondence may be so keyed as to awaken genuine interest and prove of practical educational value, instead of arousing resentment, or inducing discouragement.

I have often wondered whether a little more attention to the general tone of the office correspondence would not redound to the material benefit of the premium showing. Stilted formality, thoughtlessness, a dash of impatience, yes, even a flavor of downright snobbishness, go to make up not a small part of the routine correspondence with which the "local" is served. True, the average agent leaves a great deal to be desired, but, with it all, he is a man, and more susceptible to kindliness than is generally conceded. A snarl at his stupidity, a sneer at his inattention, a growl at his evident helplessness to cope with a situation just a trifle out of the ordinary, will inevitably arouse a sense of resentment which will as surely manifest itself in a falling off in premium returns.

The day of the stereotyped, hackneyed business letter is a thing of the past, and though in our calling dignity and responsibility are not to be lost sight of, I wager to assert that a man-to-man talk, instead of stilted platitudes, a warm, friendly chat of a letter, gently admonishing Mr. Local of his shortcomings and endeavoring in a courteous, helpful spirit to bring about a reformation, will go farther, sink in deeper, and, as bread thrown upon the waters, will come back to the company manifold in the shape of desirable premiums. The work of the agent is demanding and will continue to call for a progressive growth in efficiency, and what better educational medium than the routine correspondence could be sought for?

Progressive mercantile firms have fully awakened to a keen appreciation of the business-getting and trade-building possibilities of the properly keyed letter. Heretofore cold and impersonal correspondence has been infused with warmth and personality with the most flattering results. From a recent issue of a prominent business magazine, published in Chicago, we quote the following, viz.:

"The letter is today the greatest potential creator and transactor of business in the world. From a commonplace tool it has developed into a living business-builder.

"Progressive manufacturers and wholesalers are learning that mutual goodwill and a spirit of co-operation are vital factors in trade-building and dividend-paying, and the letter is the natural medium for keeping the house in close touch with customers.

"The aim of the successful correspondent is to seize upon every opportunity to write to the customer and show an interest in his business. Getting orders is a secondary consideration; first of all, get in close touch, and the orders will take care of themselves.

"The effectiveness of the letters sent out by a house depends largely upon an accurate knowledge of the customer and the conditions in his territory. Nothing deflects a customer's interest more quickly than a letter betraying ignorance of past transactions or his relations with the house. Just as truly the subtle flattery of a

letter showing an intimate knowledge of a customer and manifesting a genuine interest in his welfare tightens the bonds that hold him to the house."

Quite logically, the agent may be likened to the retailer, the special to the traveling salesman, and the office to the ordinary commercial firm, the sales manager's headquarters.

Not only does the letter embody wonderful possibilities in gingering up the special staff, enthusing and inspiring the men in the field, but the good work is being carried farther, and most large business concerns, fully realizing that the average retailer needs a co-operative spur, now maintain a direct point of contact with their customers, requiring their salesmen to furnish data which will enable the correspondent to strike a personal note in his letters.

The "local" is as susceptible of vitalization as the average country merchant, and while the personal element may perhaps be introduced to the most telling advantage by the "special," the opportunities for establishing and maintaining a direct point of contact need but to be sought to be found. Most commonly a reference to items noted in the agency reports of specials, advising of risks in prospect, good work done, etc., will open the door for the introduction of the personal element. Needless to say, the efforts of the special can be immensely helped by the tone to which the main office correspondence is keyed, and, conversely, the good he has tried, or is trying to do, can be all but undone by an unhappy communication from the company which gives the local cause for umbrage.

Of course, in the line of letter cultivation nothing must be overdone, but after all has been said pro and con, the indisputable fact remains that the letter is one of the most powerful factors as an actual business-producer; the greatest salesman known to modern business. The special makes his periodical visits—and at times they are few and far between—a certain number of locals drift into town and are properly dined and wined, but it's the letter, after all, on which the brunt of the business-getting battle falls and wise is the manager who stands in full appreciation of this vital fact and fosters and develops a practical literary bent, manifesting itself in a natural sales-letter-writing aptitude in any of his employees.

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